



**Govan Mbeki Municipality  
Annual Financial Statements  
for the year ended June 30, 2017**

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## General Information

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Legal form of entity	Municipality
<b>Mayoral committee</b>	
Executive Mayor	Maboa-Boltman NF
Chief Whip	Mtshali PD
Speaker	Zuma NG
MPAC Chairperson	Gwiji CV
Members of Mayoral Committee	Makhaye SA Ngxonono YT Nkosi NE Ndaba BB
Ward councillors	Botha C Chamberlain M Denny T Fourie ME Lukhele I Mahlangu BD Mahlangu ED Mahlangu NP Mazibuko KD Mbokazi AV Mbonani LM Mnisi TR Mokoena BD Morajane TA Motloung ME Mtsweni MJ Ndoda NM NG Malaza Nkabinde ER Nkosi MJ Ntuli SR Sibanyoni SI Sithole LE Swart EP Thabethe IM van Rooyen EJ Vilakazi EA Zulu TS



# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## General Information

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<b>Proportional Representative Councillors</b>	Badenhorst HJ De Vries GR Hlolweni S Klaas N Mabizela TM Maseko TM Masuku PIP Mathebula SB Mkhaliphi S Mkhwebane ZA Mofokeng TS Moloto BD Mosomane MI Mukhwanazi AO Ndwanyaza PN Nel-Buitendag AD Nhlapo MD Njinga SC Nkabinde JB Sebolela JD Shai KJ van Huyssteen NC von Widdern DC
<b>Grading of local authority</b>	B4
<b>Capacity of local authority</b>	High
<b>Dermacation code</b>	MP307
<b>Acting Chief Financial Officer (ACFO)</b>	Mahlangu MJ
<b>Accounting Officer</b>	Mhlanga BM
<b>Registered office</b>	Central Business Area Horwood Street Secunda 2302
<b>Business address</b>	Horwood Street Secunda 2302
<b>Postal address</b>	Private bag X1017 Secunda 2302
<b>Bankers</b>	ABSA Bank Limited Standard Bank
<b>Auditors</b>	Auditor General South Africa
<b>Attorneys</b>	Cronje de Waal & Skhosana Attorneys Inc. Els Louw and Rasool Attorneys Ramathe MJ Attorneys TMN Kgomo and Associates Paul Masha attorneys Tau Phalane Incorporated Attorneys Dikotope Attorneys Vusi Mthimunye Attorneys



# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

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The reports and statements set out below comprise the annual financial statements presented to the council:

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### Abbreviations

CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
FMG	Finance Management Grant



## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

### **Accounting Officer's Responsibilities and Approval**

I, B.M Mhlanga, accounting officer of the Govan Mbeki Local Municipality, am responsible for the preparation of the annual financial statements, which are set out on pages 5 to 84 in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality.

The annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

Our opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements

The municipality's cash flow forecast for the year beginning 1 July 2016 to 30 June 2017 and, in the light of this review and the current financial position and revenue enhancement activities the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The Accounting officer certify that the salaries, allowance and benefits of councilors as disclosed in the note of these Annual Financial Statement are within the upper limit of the framework envisaged in section 219 of the Constitution, read with the Remuneration of Public Office Bearers At, Act No.20 of 1998.

The annual financial statements set out on pages 5 to 87, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2017.



Mhlanga BM  
Acting Municipal Manager





# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended June 30, 2017.

### **1. Review of activities**

#### **Main business and operations**

Net deficit of the municipality was R 632,031,775 (2016: deficit R 216,116,524 restated).

### **2. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **3. Subsequent events**

The accounting officer is aware of circumstances arising since the end of the financial year. Details of the events are disclosed in the notes of the annual financial statements.

### **4. Public Private Partnership**

The municipality did not have any public private partnerships as at end of reporting period.



# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

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## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

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**Mhlanga BM**  
**Acting Municipal Manager**

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

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### **4. Public Private Partnership**

The municipality did not have any public private partnerships as at end of reporting period.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Financial Position as at June 30, 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	15	39,386,773	14,990,227
Consumer debtors	14	181,645,587	167,550,935
Inventories	11	8,495,845	9,897,552
Short term receivables	10	628,101	5,648,686
Receivables from exchange transactions	12	1,492,388	12,315,525
Receivables from non-exchange transactions	13	34,162,385	33,965,240
		<b>265,811,079</b>	<b>244,368,165</b>
<b>Non-Current Assets</b>			
Investment property	4	953,825,289	1,205,782,828
Property, plant and equipment	5	1,986,092,856	2,144,758,108
Intangible assets	6	2,086,707	2,216,131
Heritage assets	7	5,428,407	5,428,407
Other financial assets	8	10,984,716	10,419,663
Long term receivables	10	3,081,542	35,599,620
		<b>2,961,499,517</b>	<b>3,404,204,757</b>
		<b>3,227,310,596</b>	<b>3,648,572,922</b>
<b>Total Assets</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	18	1,585,291	1,409,806
Finance lease obligation	16	2,602,656	2,445,387
Payables from exchange transactions	21	899,515,860	636,540,556
Trade and other payable from non-exchange	22	3,464,552	4,569,139
VAT payable	23	24,642,883	63,687,759
Consumer deposits	24	23,124,103	22,651,297
Employee benefit obligation	9	1,115,000	1,204,000
Unspent conditional grants and receipts	17	17,114,153	19,407,803
Provisions for landfill site	19	2,610,672	1,765,668
Long service award liability	20	2,277,000	2,187,000
		<b>978,052,170</b>	<b>755,868,415</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	18	4,612,275	6,240,098
Finance lease obligation	16	480,804	3,083,460
Employee benefit obligation	9	48,361,864	50,711,864
Provisions for landfill site	19	81,333,759	88,267,578
Long service award liability	20	24,363,000	22,292,000
		<b>159,151,702</b>	<b>170,595,000</b>
		<b>1,137,203,872</b>	<b>926,463,415</b>
<b>Total Liabilities</b>			
<b>Net Assets</b>			
Accumulated surplus		<b>2,090,106,724</b>	<b>2,722,109,507</b>

\* See Note 2 & 50

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Financial Performance for the year ended 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	26	1,011,673,961	922,482,577
Rental of facilities and equipment		4,100,433	3,927,269
Interest received on outstanding debtors		44,537,487	55,285,404
Income from agency fees		23,730,891	22,502,398
Administration and management fees received		3,139,518	6,447,309
Fees earned		5,000,739	5,488,594
Incidental income		13,003,015	1,307,224
Other income	27	2,700,524	29,105,501
Interest received	28	1,538,588	1,518,368
Dividends received	28	26,668	52,409
<b>Total revenue from exchange transactions</b>		<b>1,109,451,824</b>	<b>1,048,117,053</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	29	232,691,021	189,440,509
<b>Transfer revenue</b>			
Government grants & subsidies	31	284,799,984	326,634,431
Public contributions and donations	32	-	198
Fines		15,085,912	23,370,441
Insurance claims		542,371	733,781
<b>Total revenue from non-exchange transactions</b>		<b>533,119,288</b>	<b>540,179,360</b>
<b>Total revenue</b>	25	<b>1,642,571,112</b>	<b>1,588,296,413</b>
<b>Expenditure</b>			
Employee related costs	33	(442,877,792)	(411,812,656)
Remuneration of councillors	34	(20,574,230)	(19,725,917)
Depreciation and amortisation	35	(159,353,450)	(161,182,070)
Impairment of assets	36	(8,644,861)	(1,693,493)
Finance costs	37	(42,449,372)	(40,426,315)
Debt Impairment	38	(227,097,345)	(140,889,950)
Collection costs		(2,975,046)	(8,779,147)
Repairs and maintenance		(67,588,203)	(76,133,387)
Bulk purchases	39	(817,286,667)	(719,102,325)
Contracted services	40	(85,624,233)	(77,700,495)
Grants and subsidies paid	30	(33,161,350)	(25,376,450)
General expenses	41	(141,099,758)	(104,780,697)
<b>Total expenditure</b>		<b>(2,048,732,307)</b>	<b>(1,787,602,902)</b>
<b>Operating deficit</b>		<b>(406,161,195)</b>	<b>(199,306,489)</b>
Profit (Loss) on disposal of assets		(319,495,177)	(19,410,300)
Actuarial gain / (loss)		4,677,000	2,623,000
Fair value adjustments	42	88,947,597	(22,735)
		<b>(225,870,580)</b>	<b>(16,810,035)</b>
<b>Deficit for the year</b>		<b>(632,031,775)</b>	<b>(216,116,524)</b>

\* See Note 2 & 50



# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2,935,215,335	2,935,215,335
Adjustments		
Change in accounting policy - note 2	86,825	86,825
Correction of errors - note 50	2,923,871	2,923,871
<b>Balance at July 01, 2015 as restated*</b>	<b>2,938,226,031</b>	<b>2,938,226,031</b>
Changes in net assets		
Deficit for the year	(216,116,524)	(216,116,524)
Total changes	(216,116,524)	(216,116,524)
Opening balance as previously reported	2,752,803,059	2,752,803,059
Adjustments		
Change in accounting policy - note 2	(11,425,135)	(11,425,135)
Correction of errors - note 50	(19,239,425)	(19,239,425)
<b>Restated* Balance at July 01, 2016 as restated*</b>	<b>2,722,138,499</b>	<b>2,722,138,499</b>
Changes in net assets		
Deficit for the year	(632,031,775)	(632,031,775)
Total changes	(632,031,775)	(632,031,775)
<b>Balance at June 30, 2017</b>	<b>2,090,106,724</b>	<b>2,090,106,724</b>
Note(s)		

\* See Note 2 & 50

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Cash Flow Statement for the year ended 30 June 2017

Figures in Rand	Note(s)	2017	2016 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Service charges & Property rates		1,076,184,803	925,192,052
Grants		282,185,349	300,276,768
Interest income		1,538,588	1,518,368
Dividends received		26,668	52,409
Other receipts		30,426,127	93,679,134
Fines		2,600,444	3,729,577
		<u>1,392,961,979</u>	<u>1,324,448,308</u>
<b>Payments</b>			
Employee costs		(439,966,819)	(429,063,949)
Suppliers		(834,545,138)	(803,121,813)
Finance costs		(33,166,173)	(30,283,897)
		<u>(1,307,678,130)</u>	<u>(1,262,469,659)</u>
<b>Net cash flows from operating activities</b>	44	<b>85,283,849</b>	<b>61,978,649</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	(59,631,653)	(83,764,805)
Proceeds from sale of property, plant and equipment	5	1,663,083	15,638,325
Proceeds on sale of property, plant and equipment	4	2,457,450	-
Proceeds from sale of investment property	4	-	11,849,882
Purchase of intangible assets	6	(420,417)	(1,717,646)
Movement in investments		(739,170)	(581,629)
		<u>(56,670,707)</u>	<u>(58,575,873)</u>
<b>Net cash flows from investing activities</b>		<b>(56,670,707)</b>	<b>(58,575,873)</b>
<b>Cash flows from financing activities</b>			
Movement in consumer deposits		472,806	1,021,196
Movement in loans		(1,452,338)	(4,781,644)
Finance lease payments		(3,237,064)	(3,042,057)
		<u>(4,216,596)</u>	<u>(6,802,505)</u>
<b>Net cash flows from financing activities</b>		<b>(4,216,596)</b>	<b>(6,802,505)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>24,396,546</b>	<b>(3,399,729)</b>
Cash and cash equivalents at the beginning of the year		14,990,227	18,389,956
<b>Cash and cash equivalents at the end of the year</b>	15	<b>39,386,773</b>	<b>14,990,227</b>

\* See Note 2 & 50

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1,121,495,965	-	1,121,495,965	1,011,673,961	(109,822,004)	Note 59
Rental of facilities and equipment	4,854,027	-	4,854,027	4,100,433	(753,594)	Note 59
Interest on outstanding debtors	40,901,777	-	40,901,777	44,537,487	3,635,710	Note 59
Income from agency services	33,853,881	-	33,853,881	23,730,891	(10,122,990)	Note 59
Administration and management fees	10,951,337	-	10,951,337	3,139,518	(7,811,819)	Note 59
Fees earned	7,910,759	-	7,910,759	5,000,739	(2,910,020)	Note 59
Incidental income	1,059,455	-	1,059,455	13,003,015	11,943,560	Note 59
Other income	2,030,549	-	2,030,549	2,700,524	669,975	Note 59
Interest received - investment	3,198,351	-	3,198,351	1,538,588	(1,659,763)	Note 59
Dividends received	51,829	-	51,829	26,668	(25,161)	Note 59
Total revenue from exchange transactions	1,226,307,930	-	1,226,307,930	1,109,451,824	(116,856,106)	
Revenue from non-exchange transactions						
Property rates	247,933,234	-	247,933,234	232,691,021	(15,242,213)	Note 59
Government grants & subsidies	294,784,000	(2,135,745)	292,648,255	284,799,984	(7,848,271)	Note 59
Fines	29,199,363	(1,000,000)	28,199,363	15,085,912	(13,113,451)	Note 59
Insurance Claims	948,032	-	948,032	542,371	(405,661)	Note 59
Total revenue from non-exchange transactions	572,864,629	(3,135,745)	569,728,884	533,119,288	(36,609,596)	
Total revenue	1,799,172,559	(3,135,745)	1,796,036,814	1,642,571,112	(153,465,702)	
Expenditure						
Personnel	(448,355,748)	(8,383,396)	(456,739,144)	(442,877,792)	13,861,352	Note 59

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Remuneration of councillors	(21,038,267)	-	(21,038,267)	(20,574,230)	464,037	Note 59
Depreciation and amortisation	(162,164,992)	-	(162,164,992)	(159,353,450)	2,811,542	Note 59
Impairment loss	-	-	-	(8,644,861)	(8,644,861)	Note 59
Finance costs	(3,057,827)	(2,300,000)	(5,357,827)	(42,449,372)	(37,091,545)	Note 59
Debt impairment	(137,081,274)	-	(137,081,274)	(227,097,345)	(90,016,071)	Note 59
Collection costs	(7,892,136)	-	(7,892,136)	(2,975,046)	4,917,090	Note 59
Repairs and maintenance	(83,836,878)	(6,376,671)	(90,213,549)	(67,588,203)	22,625,346	Note 59
Bulk purchases	(638,908,098)	(7,639,000)	(646,547,098)	(817,286,667)	(170,739,569)	Note 59
Contracted services	(58,204,685)	(23,511,260)	(81,715,945)	(85,624,233)	(3,908,288)	Note 59
Grants and subsidies	(51,620,781)	23,794,685	(27,826,096)	(33,161,350)	(5,335,254)	Note 59
General expenses	(96,118,009)	(1,631,430)	(97,749,439)	(141,099,758)	(43,350,319)	Note 59
<b>Total expenditure</b>	<b>(1,708,278,695)</b>	<b>(26,047,072)</b>	<b>(1,734,325,767)</b>	<b>(2,048,732,307)</b>	<b>(314,406,540)</b>	
<b>Operating deficit</b>	<b>90,893,864</b>	<b>(29,182,817)</b>	<b>61,711,047</b>	<b>(406,161,195)</b>	<b>(467,872,242)</b>	
Loss on disposal of assets	10,000,000	-	10,000,000	(319,495,177)	(329,495,177)	Note 59
Actuarial losses	-	-	-	4,677,000	4,677,000	Note 59
Fair value adjustments	-	-	-	88,947,597	88,947,597	Note 59
<b>Deficit for the year</b>	<b>10,000,000</b>	<b>-</b>	<b>10,000,000</b>	<b>(225,870,580)</b>	<b>(235,870,580)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>100,893,864</b>	<b>(29,182,817)</b>	<b>71,711,047</b>	<b>(632,031,775)</b>	<b>(703,742,822)</b>	
	<b>100,893,864</b>	<b>(29,182,817)</b>	<b>71,711,047</b>	<b>(632,031,775)</b>	<b>(703,742,822)</b>	

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	13,331,620	(4,175,000)	9,156,620	8,495,845	(660,775)	Note 59
Receivables from exchange	5,676,696	21,856,000	27,532,696	1,492,388	(26,040,308)	Note 59
Receivables from non-exchange transactions	-	-	-	34,162,385	34,162,385	Note 59
Consumer debtors	175,237,611	(6,082,000)	169,155,611	181,645,587	12,489,976	Note 59
Short term receivables	25,923,652	-	25,923,652	628,101	(25,295,551)	Note 59
Cash and cash equivalents	118,511,000	(73,727,000)	44,784,000	39,386,773	(5,397,227)	Note 59
	<b>338,680,579</b>	<b>(62,128,000)</b>	<b>276,552,579</b>	<b>265,811,079</b>	<b>(10,741,500)</b>	
<b>Non-Current Assets</b>						
Investment property	1,425,166,000	(164,305,000)	1,260,861,000	953,825,289	(307,035,711)	Note 59
Property, plant and equipment	1,987,868,878	71,076,481	2,058,945,359	1,986,092,856	(72,852,503)	Note 59
Intangible assets	911,000	1,307,742	2,218,742	2,086,707	(132,035)	Note 59
Heritage assets	5,428,407	-	5,428,407	5,428,407	-	Note 59
Other financial assets	15,486,000	(4,418,859)	11,067,141	10,984,716	(82,425)	Note 59
Long term receivables	103,170,000	(51,045,000)	52,125,000	3,081,542	(49,043,458)	Note 59
	<b>3,538,030,285</b>	<b>(147,384,636)</b>	<b>3,390,645,649</b>	<b>2,961,499,517</b>	<b>(429,146,132)</b>	
<b>Total Assets</b>	<b>3,876,710,864</b>	<b>(209,512,636)</b>	<b>3,667,198,228</b>	<b>3,227,310,596</b>	<b>(439,887,632)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Other financial liabilities	1,409,806	-	1,409,806	1,585,291	175,485	Note 59
Finance lease obligation	2,445,387	-	2,445,387	2,602,656	157,269	Note 59
Payables from exchange transactions	192,793,822	(45,752,000)	147,041,822	899,515,861	752,474,039	Note 59
Payables from non-exchange	24,268,110	2,072,000	26,340,110	3,464,552	(22,875,558)	Note 59
VAT payable	79,104,434	9,000,000	88,104,434	24,642,883	(63,461,551)	Note 59

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Consumer deposits</b>						
Employee benefit obligation	22,974,530	-	22,974,530	23,124,103	149,573	Note 59
Unspent conditional grants and receipts	1,204,000	-	1,204,000	1,115,000	(89,000)	Note 59
Provisions for landfill site	18,973,245	-	18,973,245	17,114,153	(1,859,092)	Note 59
Long service award liability	1,771,095	-	1,771,095	2,610,672	839,577	Note 59
	2,187,000	-	2,187,000	2,277,000	90,000	Note 59
	<b>347,131,429</b>	<b>(34,680,000)</b>	<b>312,451,429</b>	<b>978,052,171</b>	<b>665,600,742</b>	
<b>Non-Current Liabilities</b>						
Other financial liabilities	5,070,356	(1,712,000)	3,358,356	4,612,275	1,253,919	Note 59
Finance lease obligation	2,602,656	492,740	3,095,396	480,804	(2,614,592)	Note 59
Employee benefit obligation	49,431,864	-	49,431,864	48,361,864	(1,070,000)	Note 59
Provisions for landfill site	88,052,441	-	88,052,441	81,333,759	(6,718,682)	Note 59
Long service award liability	21,648,000	-	21,648,000	24,363,000	2,715,000	Note 59
	<b>166,805,317</b>	<b>(1,219,260)</b>	<b>165,586,057</b>	<b>159,151,702</b>	<b>(6,434,355)</b>	
<b>Total Liabilities</b>	<b>513,936,746</b>	<b>(35,899,260)</b>	<b>478,037,486</b>	<b>1,137,203,873</b>	<b>659,166,387</b>	
<b>Net Assets</b>	<b>3,362,774,118</b>	<b>(173,613,376)</b>	<b>3,189,160,742</b>	<b>2,090,106,723</b>	<b>(1,099,054,019)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
Accumulated surplus	3,362,774,118	(173,613,376)	3,189,160,742	2,090,106,723	(1,099,054,019)	Note 59

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Service charges	1,164,014,819	-	1,164,014,819	1,274,972,864	110,958,045	
Grants - operating	217,623,000	2,764,255	220,387,255	219,924,349	(462,906)	
Grants - capital	77,161,000	(14,900,000)	62,261,000	62,261,000	-	
Interest income	22,522,683	-	22,522,683	1,538,588	(20,984,095)	
Dividends received	51,829	-	51,829	26,668	(25,161)	
Other receipts	68,609,563	(45,709,430)	22,900,133	132,000,833	109,100,700	
	<b>1,549,982,894</b>	<b>(57,845,175)</b>	<b>1,492,137,719</b>	<b>1,690,724,302</b>	<b>198,586,583</b>	
<b>Payments</b>						
Suppliers and employee costs	(1,354,353,822)	(69,802,764)	(1,424,156,586)	(1,572,371,202)	(148,214,616)	
Finance costs	(3,057,828)	-	(3,057,828)	(33,166,173)	(30,108,345)	
	<b>(1,357,411,650)</b>	<b>(69,802,764)</b>	<b>(1,427,214,414)</b>	<b>(1,605,537,375)</b>	<b>(178,322,961)</b>	
<b>Net cash flows from operating activities</b>	<b>192,571,244</b>	<b>(127,647,939)</b>	<b>64,923,305</b>	<b>85,186,927</b>	<b>20,263,622</b>	

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Cash flows from investing activities</b>						
Proceeds from sale of property, plant and equipment	10,000,000	-	10,000,000	2,325,000	(7,675,000)	
Purchase of investment property	(100,894,000)	23,499,000	(77,395,000)	(61,172,298)	16,222,702	
Proceeds from sale of investment property	-	-	-	1,163,083	1,163,083	
Purchase of other intangible assets	-	-	-	(420,417)	(420,417)	
Movement in other financial assets	-	-	-	739,170	739,170	
<b>Net cash flows from investing activities</b>	<b>(90,894,000)</b>	<b>23,499,000</b>	<b>(67,395,000)</b>	<b>(57,365,462)</b>	<b>10,029,538</b>	
<b>Cash flows from financing activities</b>						
Repayment of other financial liabilities	(2,225,289)	-	(2,225,289)	(3,897,725)	(1,672,436)	
Movement in consumer deposits	859,881	-	859,881	472,806	(387,075)	
<b>Net cash flows from financing activities</b>	<b>(1,365,408)</b>	<b>-</b>	<b>(1,365,408)</b>	<b>(3,424,919)</b>	<b>(2,059,511)</b>	
Net increase/(decrease) in cash and cash equivalents	100,311,836	(104,148,939)	(3,837,103)	24,396,546	28,233,649	
Cash and cash equivalents at the beginning of the year	38,021,274	-	38,021,274	14,990,227	(23,031,047)	
<b>Cash and cash equivalents at the end of the year</b>	<b>138,333,110</b>	<b>(104,148,939)</b>	<b>34,184,171</b>	<b>39,386,773</b>	<b>5,202,602</b>	



# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Appropriation Statement

Figures in Rand

2017

### Financial Performance

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Property rates	247,933,234	1	247,933,235	-	-	247,933,235	232,691,021		(15,242,214)	94 %	94 %
Service charges	1,121,495,965	(1)	1,121,495,964	-	-	1,121,495,964	1,011,673,961		(109,822,003)	90 %	90 %
Investment revenue	3,250,180	-	3,250,180	-	-	3,250,180	1,565,256		(1,684,924)	48 %	48 %
Transfers recognised - operational	217,623,000	4,864,255	222,487,255	-	-	222,487,255	222,607,186		119,931	100 %	102 %
Other own revenue	141,709,180	(1,000,292)	140,708,888	-	-	140,708,888	205,771,016		65,062,128	146 %	145 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1,732,011,559</b>	<b>3,863,963</b>	<b>1,735,875,522</b>	<b>-</b>	<b>-</b>	<b>1,735,875,522</b>	<b>1,674,308,440</b>		<b>(61,567,082)</b>	<b>96 %</b>	<b>97 %</b>
Employee costs	(448,355,748)	(15,440,219)	(463,795,967)	-	-	(463,795,967)	(442,877,792)		20,918,175	95 %	99 %
Remuneration of councillors	(21,038,267)	(1,676,021)	(22,714,288)	-	-	(22,714,288)	(20,574,230)		2,140,058	91 %	98 %
Debt impairment	(137,081,274)	-	(137,081,274)	-	-	(137,081,274)	(227,097,345)		(90,016,071)	166 %	166 %
Depreciation and asset impairment	(162,164,992)	-	(162,164,992)	-	-	(162,164,992)	(167,998,311)		(5,833,319)	104 %	104 %
Finance charges	(3,057,827)	(2,300,000)	(5,357,827)	-	-	(5,357,827)	(42,449,372)		(37,091,545)	792 %	1,388 %
Materials and bulk purchases	(638,908,098)	(7,639,000)	(646,547,098)	-	-	(646,547,098)	(817,286,667)		(170,739,569)	126 %	128 %
Transfers and grants	(51,620,781)	23,794,685	(27,826,096)	-	-	(27,826,096)	(33,161,350)		(5,335,254)	119 %	64 %
Other expenditure	(246,051,708)	(22,786,517)	(268,838,225)	-	-	(268,838,225)	(617,087,946)		(348,249,721)	230 %	251 %
<b>Total expenditure</b>	<b>(1,708,278,695)</b>	<b>(26,047,072)</b>	<b>(1,734,325,767)</b>	<b>-</b>	<b>-</b>	<b>(1,734,325,767)</b>	<b>(2,368,533,013)</b>		<b>(634,207,246)</b>	<b>137 %</b>	<b>139 %</b>
<b>Surplus/(Deficit)</b>	<b>23,732,864</b>	<b>(22,183,109)</b>	<b>1,549,755</b>	<b>-</b>	<b>-</b>	<b>1,549,755</b>	<b>(694,224,573)</b>		<b>(695,774,328)</b>	<b>(44,796)%</b>	<b>(2,925)%</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments (i.t.o. council approved policy)	Shifting of funds (i.t.o. MFMA)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	77,161,000	(7,000,000)	70,161,000	-	70,161,000	62,192,798	(7,968,202)		89 %	81 %
Contributions recognised - capital and contributed assets	-	428	428	-	428	-	(428)		- %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>100,893,864</b>	<b>(29,182,681)</b>	<b>71,711,183</b>	<b>-</b>	<b>71,711,183</b>	<b>(632,031,775)</b>	<b>(703,742,958)</b>		<b>(881)%</b>	<b>(626)%</b>
<b>Surplus/(Deficit) for the year</b>	<b>100,893,864</b>	<b>(29,182,681)</b>	<b>71,711,183</b>	<b>-</b>	<b>71,711,183</b>	<b>(632,031,775)</b>	<b>(703,742,958)</b>		<b>(881)%</b>	<b>(626)%</b>
<b>Capital expenditure and funds sources</b>										
Total capital expenditure	100,894,000	(13,498,897)	87,395,103	-	87,395,103	613,976,013	526,580,910		703 %	609 %
<b>Sources of capital funds</b>										
National Government	60,161,000	2,951,830	63,112,830	-	63,112,830	-	(63,112,830)		- %	- %
Provincial Government	17,000,000	(17,000,000)	-	-	-	-	-		DIV/0 %	- %
Public contributions and donations	-	10,000,000	10,000,000	-	10,000,000	-	(10,000,000)		- %	DIV/0 %
Internally generated funds	23,733,000	(9,450,727)	14,282,273	-	14,282,273	-	(14,282,273)		- %	- %
<b>Total sources of capital funds</b>	<b>100,894,000</b>	<b>(13,498,897)</b>	<b>87,395,103</b>	<b>-</b>	<b>87,395,103</b>	<b>-</b>	<b>(87,395,103)</b>		<b>- %</b>	<b>- %</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	192,571,245	(127,647,939)	64,923,306	-	-	64,923,306	85,283,849		20,360,543	131 %	44 %
Net cash from (used) investing	(90,894,000)	23,499,000	(67,395,000)	-	-	(67,395,000)	(56,670,707)		10,724,293	84 %	62 %
Net cash from (used) financing	(1,365,408)	-	(1,365,408)	-	-	(1,365,408)	(4,216,596)		(2,851,188)	309 %	309 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>100,311,837</b>	<b>(104,148,939)</b>	<b>(3,837,102)</b>	<b>-</b>	<b>-</b>	<b>(3,837,102)</b>	<b>24,396,546</b>		<b>28,233,648</b>	<b>(636)%</b>	<b>24 %</b>
Cash and cash equivalents at the beginning of the year	38,021,274	-	38,021,274	-	-	38,021,274	14,990,227		(23,031,047)	39 %	39 %
<b>Cash and cash equivalents at year end</b>	<b>138,333,111</b>	<b>(104,148,939)</b>	<b>34,184,172</b>	<b>-</b>	<b>-</b>	<b>34,184,172</b>	<b>39,386,773</b>		<b>(5,202,601)</b>	<b>115 %</b>	<b>28 %</b>

The accounting policies on pages 19 to 44 and the notes on pages 45 to 96 form an integral part of the annual financial statements.

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

## **Accounting Policies for the year ended 30 June 2017**

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### **1. Presentation of Annual Financial Statements**

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period. The details of any changes in accounting policies are explained in the relevant policy.

#### **1.1 Presentation currency**

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### **1.2 Significant judgements and sources of estimation uncertainty**

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### **Trade and other receivables**

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables calculated on risk basis taking into account the number cut-offs, handed over status, indigent and payment ratio of each consumer debtor. The amount of loss is measured as the difference between the consumer debtor carrying amount and the estimated future cash flows.

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of service potential expected to be realized from distribution or use.

##### **Fair value estimation**

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

##### **Impairment testing**

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In making the above mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17 (Property, Plant and Equipment), GRAP 12 (Inventory), GRAP 31 (Intangible Assets), GRAP 26 (Impairment of cash generating assets) and GRAP 21 (Impairment of Non Cash Generating Assets). In particular, the calculation of the recoverable service amount for property, plant and equipment and intangible assets and the net realisable value for inventories involves significant judgement by management.

##### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

## **Accounting Policies for the year ended 30 June 2017**

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### **1.2 Significant judgements and sources of estimation uncertainty (continued)**

#### **Useful lives of property, plant and equipment**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### **Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

#### **Effective interest rate**

The municipality use the government bond rate to discount future cash flows.

#### **Allowance for debt impairment**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### **1.3 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Accounting Policies for the year ended 30 June 2017

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### 1.3 Investment property (continued)

#### Fair value

Subsequent to initial measurement investment property is measured at fair value of investment property reflecting market conditions at the valuation roll period of the municipality and annually updated with amendments of supplementary valuation roll.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property. Such difference is recognised in surplus or deficit when the investment property is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

### 1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost at acquisition date or in the case of donated assets or assets acquired by grant, the deemed cost being the fair value of the asset on initial recognition.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary cost of dismantling and removing the asset and restoring the site in which it is located.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Accounting Policies for the year ended 30 June 2017

### 1.4 Property, plant and equipment (continued)

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses. Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and cost or fair value of the subsequent expenditure can be reliably measured. Expenditure incurred is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces major parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 years
Landfill site	Straight line	24 years
Infrastructure	Straight line	10-30 years
Community	Straight line	15-30 years
Other property, plant and equipment	Straight line	3-15 years

The municipality shall assess at each reporting date whether there is any indication that the expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

# Govan Mbeki Municipality

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## Accounting Policies for the year ended 30 June 2017

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### 1.5 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the municipality intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.



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### 1.6 Intangible assets (continued)

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal

The gain or loss arising from the precognition of an intangible assets is determined as the difference between the net disposal proceeds, if any, and carrying amount of the intangible asset. Such difference is recognised in surplus or deficit when the asset is derecognised.

### 1.7 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

#### Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

#### Initial measurement

Heritage assets Heritage assets that qualifies for recognition as an asset shall be measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

#### Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

#### Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the precognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the item is derecognised

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

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### 1.8 Financial instruments (continued)

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the municipality shall estimate cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument or group of financial instruments, the municipality shall use the contractual cash flows over the full contractual term of the financial instrument or group of financial instruments.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

# Govan Mbeki Municipality

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### 1.8 Financial instruments (continued)

#### Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Consumer receivables	Financial asset measured at amortised cost
Cash and cash equivalent	Financial asset measured at amortised cost
Long term receivables	Financial asset measured at amortised cost
Other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non-exchange transactions	Financial liability measured at amortised cost
Other financial liabilities (Loan)	Financial liability measured at amortised cost
Value Added Tax	Financial liability measured at amortised cost
Financial lease	Financial liability measured at amortised cost

#### Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

# Govan Mbeki Municipality

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### 1.8 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest rate method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility in the case of a financial asset.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, the municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

# Govan Mbeki Municipality

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### 1.8 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

### Derecognition

#### Financial assets

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

#### Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Title may or may not eventually be transferred. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

# **Govan Mbeki Municipality**

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### **1.9 Leases (continued)**

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

### **1.10 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# **Govan Mbeki Municipality**

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### **1.10 Inventories (continued)**

#### **Water inventory**

Water is regarded as inventory when the municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes, etc). However, water in dams, that are filled by natural resources and that has not yet been treated, that is under the control of the municipality but cannot be measured reliably as there is no cost attached to the water, is therefore not recognised in the statement of financial position

The basis of determining the cost of water purchased and not yet sold at reporting date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates.

Water and purified effluent are valued by using the first-in-first-out method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

#### **Other arrangements**

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of financial performance in the year in which they arise. The amount of any reversal of any write down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

### **1.11 Impairment of cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. It generates a commercial return.

#### **Identification**

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### **Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### **Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

# Govan Mbeki Municipality

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### 1.11 Impairment of cash-generating assets (continued)

#### Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs.

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.



# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

## **Accounting Policies for the year ended 30 June 2017**

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### **1.11 Impairment of cash-generating assets (continued)**

#### **Reversal of impairment loss**

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### **1.12 Impairment of non-cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. It generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

# Govan Mbeki Municipality

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## Accounting Policies for the year ended 30 June 2017

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### 1.12 Impairment of non-cash-generating assets (continued)

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:

- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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### **1.13 Employee benefits (continued)**

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

#### **Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

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### 1.13 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The municipality uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

# **Govan Mbeki Municipality**

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## **Accounting Policies for the year ended 30 June 2017**

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### **1.13 Employee benefits (continued)**

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The municipality recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

### **Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

### **1.14 Provisions and contingencies**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Accounting Policies for the year ended 30 June 2017

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### 1.14 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when the municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

Contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is:

- a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality; or
- a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
  - the amount of the obligation cannot be measured with sufficient reliability

Contingent assets and contingent liabilities are not recognised however disclosed in the notes of the financial statements. Contingencies are disclosed in note 47.

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## **Accounting Policies for the year ended 30 June 2017**

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### **1.14 Provisions and contingencies (continued)**

#### **Decommissioning, restoration and similar liability**

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### **1.15 Commitments**

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Commitments are not recognised in the statement of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP.

### **1.16 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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## **Accounting Policies for the year ended 30 June 2017**

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### **1.16 Revenue from exchange transactions (continued)**

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Rendering of services by the municipality includes, but not limited to income from agency fees, rentals, incidental income and other income.

#### **Interest and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or their equivalents are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

### **1.17 Revenue from non-exchange transactions**

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.



# **Govan Mbeki Municipality**

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## **Accounting Policies for the year ended 30 June 2017**

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### **1.17 Revenue from non-exchange transactions (continued)**

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

### **Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

### **Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

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### **1.17 Revenue from non-exchange transactions (continued)**

#### **Rates including collection charges and penalties**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### **Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

#### **Fines**

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

#### **Grants**

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Unconditional grants and receipts are recognised upon receipt.

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

#### **Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

# **Govan Mbeki Municipality**

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## **Accounting Policies for the year ended 30 June 2017**

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### **1.18 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

When the carrying amount or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value or replacement cost, the carrying amount is written down or written off in accordance with the accounting policy on Impairment of Assets and Inventories as per accounting policy number 1.10, 1.11 and 1.12. In certain circumstances, the amount of the write-down or write-off is written back in accordance with the same accounting policy.

Capitalisation is suspended during extended periods in which active development is suspended.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality ceases capitalising borrowing costs when it completes substantially all the activities necessary to prepare that part for its intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.19 Comparative figures**

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### **1.20 Unauthorised expenditure**

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.21 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.22 Irregular expenditure**

Irregular expenditure is expenditure incurred that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

# Govan Mbeki Municipality

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### 1.22 Irregular expenditure (continued)

All expenditure relating to irregular expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

#### Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

### 1.24 Budget information

The approved budget is prepared on an accrual basis and presented by programmes linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2016 to 6/30/2017.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### 1.25 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### 1.26 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

### **Accounting Policies for the year ended 30 June 2017**

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#### **1.26 Events after reporting date (continued)**

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

## Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

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#### 2. Change in accounting policy

The municipality changed its accounting policy with respect to the disposal of vacant land (investment property). The municipality now applies the policy to ensure that the purchaser needs to sign an agreement with the municipality and pay the agreed selling price in full before risks and rewards are transferred and the property transferred out of the municipality's records. Prior to this change in policy, the municipality transferred the property to the third party once the agreement is signed and the payment was not considered.

The impact of this voluntary change in accounting policy on the financial statements is primarily to reduce trade receivables from exchange transactions which were created in the past for all payments received in advance. This change did not result in a material impact on the current year or any years included within these financial statements. The change in accounting policy has been applied retrospectively by restating the comparative figures accordingly.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended June 30, 2016 is as follows:

#### Statement of financial position

##### Assets

Investment Property	857,000
Property, plant and equipment	805,512
	<b>1,662,512</b>

##### Current Assets

Trade and other receivables	(2,874,398)
-----------------------------	-------------

##### Current liabilities

Trade Payables	(12,045,520)
VAT Payables	1,832,271
	<b>(10,213,249)</b>

##### Accumulated surplus

Opening accumulated surplus	(86,825)
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#### Statement of Financial Performance

##### Revenue

Profit or Loss on sale of asset	11,511,960
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# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 3. New standards and interpretations

#### 3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### **GRAP 108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is not material.

##### **GRAP 17 (as amended 2015): Property, Plant and Equipment**

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after April 01, 2016.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is set out in note 2 Changes in Accounting Policy.

##### **GRAP 16 (as amended 2015): Investment Property**

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

### 3. New standards and interpretations (continued)

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after April 01, 2016.

The municipality has adopted the standard for the first time in the 2017 annual financial statements.

The impact of the standard is not material.

### 3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 01, 2017 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"><li>• Directive 12: The Selection of an Appropriate Reporting Framework by Public Entities</li><li>• GRAP 20: Related parties</li></ul>	April 01, 2018	Impact is currently being assessed
<ul style="list-style-type: none"><li>• GRAP 26 (as amended 2015): Impairment of cash-generating assets</li><li>• GRAP 109: Accounting by Principals and Agents</li></ul>	April 01, 2017	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none"><li>• GRAP 21 (as amended 2015): Impairment of non-cash-generating assets</li><li>• GRAP 18: Segment Reporting</li></ul>	April 01, 2017	Impact is currently being assessed
	April 01, 2017	Impact is currently being assessed
	April 01, 2017	Not expected to impact results but may result in additional disclosure

### GRAP 105: Transfers of functions between entities under common control

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2015.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

### GRAP 106: Transfers of functions between entities not under common control

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.



## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

### **Notes to the Annual Financial Statements for the year ended 30 June 2017**

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#### **3. New standards and interpretations (continued)**

The effective date of the standard is for years beginning on or after April 01, 2015.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

#### **GRAP 107: Mergers**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after April 01, 2015.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

## Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

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#### 4. Investment property

	2017			2016		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	953,825,289	-	953,825,289	1,205,782,828	-	1,205,782,828

#### Reconciliation of investment property - 2017

	Opening balance	Additions	Fair value adjustments	Disposals	Total
Investment property	1,205,782,828	30,800,000	88,964,461	(371,722,000)	953,825,289

#### Reconciliation of investment property - 2016

	Opening balance	Disposals	Total
Investment property	1,237,578,289	(31,795,461)	1,205,782,828

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### Details of valuation

The effective date of the revaluations was 1 July 2016. Revaluations were performed by an independent valuer from Lutendo Property Group, the valuer is qualified and registered as a Professional Valuer with the institute of the South African Council for Property Valuers Profession. Lutendo Property Group valuation services is not connected to the municipality and have experience in location and category of the investment property being valued.

Investment property was fair valued and changes on the market value increased the fair value by R 88 964 461. The valuation assumptions are based on current market conditions.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 5. Property, plant and equipment

	2017				2016			
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation	Accumulated depreciation and impairment
Land	428,949,830	-	428,949,830	470,966,095	-	470,966,095	470,966,095	-
Buildings	934,737,170	(644,287,351)	290,449,819	891,126,533	(612,503,573)	278,622,960	278,622,960	-
Infrastructure	4,486,896,185	(3,411,002,306)	1,075,893,879	4,463,304,906	(3,289,650,600)	1,173,654,306	1,173,654,306	-
Assets under construction	122,164,553	-	122,164,553	133,343,690	-	133,343,690	133,343,690	-
Landfill site	178,562,234	(141,936,848)	36,625,386	186,164,465	(137,524,414)	48,640,051	48,640,051	-
Leased movable assets	5,982,631	(3,804,466)	2,178,166	6,818,105	(2,470,739)	4,347,366	4,347,366	-
Other property, plant and equipment	130,609,114	(101,824,877)	28,784,237	137,482,692	(103,706,592)	33,776,100	33,776,100	-
Library books	4,889,193	(3,642,207)	1,046,986	4,877,044	(3,469,504)	1,407,540	1,407,540	-
<b>Total</b>	<b>6,292,590,910</b>	<b>(4,306,498,054)</b>	<b>1,986,092,856</b>	<b>6,294,083,530</b>	<b>(4,149,325,422)</b>	<b>2,144,758,108</b>	<b>2,144,758,108</b>	<b>-</b>

### Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	470,966,095	-	(42,016,265)	-	-	-	428,949,830
Buildings	278,622,960	-	-	43,610,635	(26,531,545)	(5,252,231)	290,449,819
Infrastructure	1,173,654,306	183,585	-	23,407,634	(118,617,533)	(2,734,113)	1,075,893,879
Assets under construction	133,343,690	55,839,132	-	(67,018,269)	-	-	122,164,553
Landfill site	48,640,051	936,999	(8,080,852)	-	(4,870,812)	-	36,625,386
Leased movable assets	4,347,366	-	(65,327)	-	(2,103,873)	-	2,178,166
Other property, plant and equipment	33,776,100	3,826,789	(1,807,013)	-	(6,352,143)	(659,496)	28,784,237
Library Books	1,407,540	-	(19,578)	-	(340,976)	-	1,046,986
<b>Total</b>	<b>2,144,758,108</b>	<b>60,786,505</b>	<b>(51,989,035)</b>	<b>-</b>	<b>(158,816,882)</b>	<b>(8,645,840)</b>	<b>1,986,092,856</b>

### Reconciliation of property, plant and equipment - 2016

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 5. Property, plant and equipment (continued)

	Opening balance	Additions	Donations	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	473,591,233	-	-	(2,625,138)	-	-	-	470,966,095
Buildings	295,261,407	7,067,469	-	-	-	(23,705,916)	-	278,622,960
Infrastructure	1,254,000,642	6,661,377	3,735,731	(388,492)	27,790,323	(118,145,275)	-	1,173,654,306
Assets Under construction	86,983,796	74,150,217	-	-	(27,790,323)	-	-	133,343,690
Landfill site	53,246,409	2,796,044	-	(3,705,909)	-	(3,696,493)	-	48,640,051
Leased assets	545,675	5,982,630	-	-	-	(2,180,939)	-	4,347,366
Other property, plant and equipment	42,283,252	2,955,990	2,667,627	(31,791)	-	(12,407,099)	(1,691,879)	33,776,100
Library Books	1,756,152	-	226,936	(10,460)	-	(565,088)	-	1,407,540
	<b>2,207,668,566</b>	<b>99,613,727</b>	<b>6,630,294</b>	<b>(6,761,790)</b>	<b>-</b>	<b>(160,700,810)</b>	<b>(1,691,879)</b>	<b>2,144,758,108</b>

### Pledged as security

Carrying value of assets pledged as security:

Office equipment

Included other property plant and equipment is office equipment subject to finance lease. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note on the finance lease obligations.

2,178,166

4,347,366

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### Expenditure incurred to repair and maintain property, plant and equipment

In the 2016/2017 financial period, the municipality incurred the following expenditure to repair and maintain property, plant and equipment included in Statement of Financial Performance

Infrastructure Water assets	5,881,815
Infrastructure Electricity assets	25,185,720
Infrastructure Roads and Storm water	12,423,047
Infrastructure Sanitation	8,975,262
Operating Landfill Site	11,912,112
Facilities	1,916,612
Other Assets	1,293,635
	<b>67,588,203</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 6. Intangible assets

	2017			2016		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3,284,489	(1,197,782)	2,086,707	2,903,177	(687,046)	2,216,131

#### Reconciliation of intangible assets - 2017

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	2,216,131	420,417	(14,312)	(535,529)	2,086,707

#### Reconciliation of intangible assets - 2016

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software, other	983,943	1,717,646	(4,562)	(480,896)	2,216,131

#### Pledged as security

All intangible assets are held under freehold interests and no intangible assets have been pledged as security for any liabilities of the municipality

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 7. Heritage assets

	2017			2016		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	5,428,407	-	5,428,407	5,428,407	-	5,428,407

#### Reconciliation of heritage assets 2017

	Opening balance	Total
Art Collections, antiquities and exhibits	5,428,407	5,428,407

#### Reconciliation of heritage assets 2016

	Opening balance	Disposals	Total
Art Collections, antiquities and exhibits	5,428,711	(304)	5,428,407

#### Pledged as security

No heritage assets have been pledged as security for any liabilities of the municipality.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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<b>8. Other financial assets</b>		
<b>Designated at fair value</b>		
Old mutual shares	1,056,431	1,241,435
Sanlam shares	158,890	148,002
	<b>1,215,321</b>	<b>1,389,437</b>
<b>At amortised cost</b>		
ABSA Fixed deposit	9,769,395	9,030,226
The ABSA balance is held as security for the DBSA loan with a balance of R 6 197 565 as at year end (2016: R 7 649 904).		
<b>Total other financial assets</b>	<b>10,984,716</b>	<b>10,419,663</b>
<b>Non-current assets</b>		
At fair value	1,215,321	1,389,437
At amortised cost	9,769,395	9,030,226
	<b>10,984,716</b>	<b>10,419,663</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 9. Employee benefit obligations

#### Defined benefit plan

##### Post retirement medical aid plan

The municipality provides certain post - retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member who is on the current conditions of service is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit funding method.

At the valuation date individuals entitled to a post - retirement medical aid subsidy were:

In - service (employee) members.

In - service (employee) non - members.

Continuation (retiree and widow) members.

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(48,361,864)	(50,599,864)
Present value of the defined benefit obligation-partly or wholly funded	(1,115,000)	(1,316,000)
	<b>(49,476,864)</b>	<b>(51,915,864)</b>
Non-current liabilities	(48,361,864)	(50,711,864)
Current liabilities	(1,115,000)	(1,204,000)
	<b>(49,476,864)</b>	<b>(51,915,864)</b>

#### Valuation of assets

At the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets had been set aside to meet this liability.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	(51,915,864)	(50,599,864)
Benefits paid	3,781,000	3,252,000
Net expense recognised in the statement of financial performance	(1,342,000)	(4,568,000)
	<b>(49,476,864)</b>	<b>(51,915,864)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	(1,204,000)	(1,168,000)
Interest cost	(4,507,000)	(4,500,000)
Actuarial (gains) losses	4,369,000	1,100,000
	<b>(1,342,000)</b>	<b>(4,568,000)</b>

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.47 %	9.01 %
Consumer Price Inflation	6.85 %	7.20 %
Health care cost inflation	7.85 %	8.20 %
Net discount rate	1.50 %	0.75 %

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 9. Employee benefit obligations (continued)

The determination of the investment returns are as per market yields at balance sheet date on government bonds. Two most important financial variables used in our valuation are the discount and medical aid inflation rates, the zero coupon yield curve from Johannesburg Stock Exchange were used to determine the discount rates and CPI assumptions.

The discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2017 is 9.47% per annum

The yield on inflation linked bonds of a similar term was about 2.45% per annum, implying an underlying expectation of inflation of 6.85% per annum.

A healthcare cost inflation rate of 7.85% was assumed. This is 1.0% in excess of the expected inflation over the expected term of the liability. It is the relative levels of the discount rate and healthcare inflation to one another that are important rather than the nominal values. It has thus assumed a net discount factor of 1.50% per annum.

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements. It was assumed that post employment health care subsidy would be at 100% of active employees or their surviving dependents.

#### Actuarial gains

##### Changes in economic variables

The changes in net discount rate from last years valuation to the current year reduced the liability by R 4 741 000  
The health benefit inflation was lower than assumed in the prior valuation and the effect was a decrease in the liability by R 18 000.

The net effect of miscellaneous items resulted in an increase to the liability by R 2 631 000.

Changes in membership – There were a few changes in the membership over the past financial years changes resulted in a decrease in the liability of around R 2 241 000.

#### Sensitivity analysis

The valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables i.e

- 20% increase/decrease in the assumed level of mortality;
- 1% increase/decrease in the Medical Aid inflation

#### Withdrawal rate

The 20% decrease and 20% increase in the withdrawals assumption will result in will result in 0.86% increase and 0.80% decrease in the accrued liability respectively.

#### Health care cost inflation

The valuation basis assume that the health care cost inflation rate will increase by 1. Therefore 1% increase in health care inflation assumption will result in 11.53% increase in the accrued liability and 1% decrease in health care inflation assumption will result in 9.75% decrease in the accrued liability.

#### Withdrawal rate

	-20% Withdrawal rate	Valuation assumptions	+20% Withdrawal rate
Total Accrued Liability	49,079,000	49,476,000	49,909,000
Current Service Cost	1,074,000	1,115,000	1,161,000
Interest Cost	4,471,000	4,508,000	4,549,000
	<b>54,624,000</b>	<b>55,099,000</b>	<b>55,619,000</b>



# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 9. Employee benefit obligations (continued)

#### Health care cost inflation

	-1% Health care cost inflation	Valuation assumptions	+1% Health care cost inflation
Total Accrued Liability	44,643,000	49,476,000	55,179,000
Current Service Cost	928,000	1,115,000	1,350,000
Interest Cost	4,052,000	4,508,000	5,048,000
	<b>49,623,000</b>	<b>55,099,000</b>	<b>61,577,000</b>

### 10. Long term receivables

Credit quality of long term receivables

The credit quality of long term receivables from exchange transactions that are either past due or impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed. Long term receivables include debtors with signed debt arrangement and/or handed over to lawyers

The municipality enforces its approved credit policy to ensure the recovery of long term receivables. The balance of long term receivables are as follows.

#### Summary of long term debtors

Gross long term receivables	88,130,529	130,005,397
Less: Allowance for impairment	(84,420,886)	(88,756,917)
	<b>3,709,643</b>	<b>41,248,480</b>
Short term receivables	628,101	5,648,686
Long term receivables	3,081,542	35,599,620

### 11. Inventories

Consumable stores	7,840,968	9,279,260
Water	654,877	618,292
	<b>8,495,845</b>	<b>9,897,552</b>

### 12. Receivables from exchange transactions

Other receivables	1,492,388	12,315,525
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### 13. Receivables from non-exchange transactions

Fines	2,170,522	7,682,743
Government grants and subsidies	10,250,625	11,070,083
Property rates	21,741,238	15,212,414
	<b>34,162,385</b>	<b>33,965,240</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>13. Receivables from non-exchange transactions (continued)</b>		
<b>Receivables from non-exchange transactions pledged as security</b>		
<b>Summary of property rates</b>		
Gross balance	77,843,433	66,470,145
Less: Allowance for impaired	(56,102,194)	(50,165,954)
	<b>21,741,239</b>	<b>16,304,191</b>
<b>Summary of rates per ageing</b>		
Current (0-30 days)	5,128,024	2,361,418
31 -60 days	2,776,197	1,715,665
61-90 days	2,637,938	1,541,322
91-120 days	2,205,736	2,086,787
>120 days	65,095,538	58,586,495
Allowance for impairment	(56,102,194)	(50,165,954)
	<b>21,741,239</b>	<b>16,125,733</b>
<b>Consumers</b>		
Current (0-30 days)	1,207,085	600,174
31 -60 days	1,131,192	629,329
61-90 days	946,599	598,514
91-120 days	822,227	898,817
>120 days	23,003,459	24,189,290
Allowance for impairment	(19,087,132)	(20,715,722)
	<b>8,023,430</b>	<b>6,200,402</b>
<b>Industrial/ Commercial</b>		
Current (0-30 days)	3,573,420	1,693,447
31-60 days	1,479,747	1,014,494
61-90 days	1,544,569	880,161
91-120 days	1,236,732	1,116,596
>120 days	36,297,561	30,663,877
Allowance for impairment	(31,574,285)	(25,940,628)
	<b>12,557,744</b>	<b>9,427,947</b>
<b>National and Provincial government</b>		
Current (0-31days)	173,688	28,470
31-60 days	63,293	29,122
61-90 days	63,130	27,725
91-120 days	61,991	36,810
>120 days	3,492,236	2,020,233
Allowance for impairment	(3,318,898)	(1,831,831)
	<b>535,440</b>	<b>310,529</b>
<b>Other</b>		
Current (0-31days)	173,832	40,638
31-60 days	101,964	42,720
61-90 days	83,640	34,932
91-120 days	84,786	34,565
>120 days	2,302,282	1,713,094
Allowance for impairment	(2,121,880)	(1,677,766)
	<b>624,624</b>	<b>188,183</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>13. Receivables from non-exchange transactions (continued)</b>		
<b>Receivables from non-exchange transactions pledged as security</b>		
None of the receivables from non-exchange transactions were pledged as security.		
<b>Reconciliation of provision for impairment of receivables from property rates</b>		
Opening balance	(50,165,954)	(60,724,355)
Provision for impairment	(5,936,241)	10,558,401
	<b>(56,102,195)</b>	<b>(50,165,954)</b>

### Fines

#### Debt was guaranteed, but no guarantee fee was paid

Financial guarantee contract details are as follow:

<b>Summary of fines</b>		
Opening balance	33,912,888	69,200,344
Additions	12,485,468	19,640,864
Gross fines written off	-	(54,928,320)
Provision for impairment	(44,227,834)	(26,230,145)
	<b>2,170,522</b>	<b>7,682,743</b>

#### Reconciliation of provision for impairment of receivables from fines

Opening balance	(26,230,145)	(63,922,387)
Provision for impairment	(17,997,689)	37,692,242
	<b>(44,227,834)</b>	<b>(26,230,145)</b>

#### Credit quality of receivables from non-exchange transactions

The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.

Assessment rate receivables are billed monthly. No interest is charged on these receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

### 14. Consumer debtors

<b>Gross balances</b>		
Electricity	125,112,530	113,198,354
Water	293,238,380	337,388,837
Sewerage	118,961,085	152,555,126
Refuse	107,152,739	138,350,546
Other	217,051,152	237,826,710
	<b>861,515,886</b>	<b>979,319,573</b>
<b>Less: Allowance for impairment</b>		
Electricity	(53,510,617)	(77,938,775)
Water	(238,954,339)	(268,209,692)
Sewerage	(103,974,664)	(136,986,041)
Refuse	(70,629,092)	(122,529,462)
Other	(212,801,587)	(206,104,668)
	<b>(679,870,299)</b>	<b>(811,768,638)</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>14. Consumer debtors (continued)</b>		
<b>Net balance</b>		
Electricity	71,601,913	35,259,579
Water	54,284,041	69,179,145
Sewerage	14,986,421	15,569,085
Refuse	36,523,647	15,821,084
Other	4,249,565	31,722,042
	<b>181,645,587</b>	<b>167,550,935</b>
<b>Electricity</b>		
Current (0 -30 days)	30,767,763	32,806,844
31 - 60 days	5,792,196	4,353,205
61 - 90 days	4,400,138	4,491,405
91 - 120 days	3,307,747	4,066,331
121 - 365 days	80,842,736	67,482,303
> 365 days	(53,508,667)	(77,940,509)
	<b>71,601,913</b>	<b>35,259,579</b>
<b>Water</b>		
Current (0 -30 days)	28,365,935	39,591,542
31 - 60 days	10,370,234	9,993,729
61 - 90 days	12,285,318	9,842,867
91 - 120 days	9,368,094	9,485,185
121 - 365 days	232,848,800	268,475,514
> 365 days	(238,954,340)	(268,209,692)
	<b>54,284,041</b>	<b>69,179,145</b>
<b>Sewerage</b>		
Current (0 -30 days)	4,031,943	5,060,916
31 - 60 days	4,894,532	4,012,842
61 - 90 days	3,420,292	3,609,539
91 - 120 days	3,987,414	3,769,250
121 - 365 days	102,626,904	136,102,579
> 365 days	(103,974,664)	(136,986,041)
	<b>14,986,421</b>	<b>15,569,085</b>
<b>Refuse</b>		
Current (0 -30 days)	3,328,147	3,601,247
31 - 60 days	3,471,411	3,610,422
61 - 90 days	3,264,151	3,350,294
91 - 120 days	3,067,552	3,206,876
121 - 365 days	94,021,578	124,581,707
> 365 days	(70,629,192)	(122,529,462)
	<b>36,523,647</b>	<b>15,821,084</b>
<b>Other</b>		
Current (0 -30 days)	768,995	562,252
31 - 60 days	258,268	613,318
61 - 90 days	361,704	496,740
91 - 120 days	420,767	412,645
121 - 365 days	215,241,418	235,740,021
> 365 days	(212,801,587)	(206,102,934)
	<b>4,249,565</b>	<b>31,722,042</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>14. Consumer debtors (continued)</b>		
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	32,074,303	57,932,321
31 - 60 days	17,064,415	20,022,109
61 - 90 days	17,603,396	19,144,148
91 - 120 days	15,180,321	18,734,034
121 - 365 days	581,232,773	766,046,478
	663,155,208	881,879,090
Less: Allowance for impairment	(566,986,322)	(753,239,929)
	<b>96,168,886</b>	<b>128,639,161</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	18,458,802	20,568,433
31 - 60 days	5,880,718	1,721,555
61 - 90 days	4,485,365	1,985,742
91 - 120 days	3,693,176	1,572,632
121 - 365 days	93,921,409	36,888,442
	126,439,470	62,736,804
Less: Allowance for impairment	(67,479,340)	(29,914,846)
	<b>58,960,130</b>	<b>32,821,958</b>
<b>National and provincial government</b>		
Current (0 -30 days)	16,103,792	2,624,313
31 - 60 days	1,545,755	434,197
61 - 90 days	1,288,731	424,733
91 - 120 days	1,006,800	326,030
121 - 365 days	25,516,515	6,644,814
	45,461,593	10,454,087
Less: Allowance for impairment	(22,166,792)	(6,046,098)
	<b>23,294,801</b>	<b>4,407,989</b>
<b>Other</b>		
Current (0 -30 days)	625,924	497,734
31 - 60 days	295,932	405,656
61 - 90 days	354,150	236,222
91 - 120 days	271,321	307,658
121 - 365 days	24,912,374	22,837,032
	26,459,701	24,284,302
Less: Allowance for impairment	(23,237,945)	(22,569,505)
	<b>3,221,756</b>	<b>1,714,797</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(811,768,638)	(706,606,715)
Contributions to allowance	(206,384,834)	(105,161,923)
Irrecoverable debts written-off	338,283,173	-
	<b>(679,870,299)</b>	<b>(811,768,638)</b>

### Consumer debtors pledged as security

No consumer debtors have been pledged as security for any liabilities of the municipality.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 14. Consumer debtors (continued)

#### Credit quality of consumer debtors

The credit quality of consumer receivables from exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to average payment history and incorporates this information into its credit risk control. No external credit rating is performed.

Consumer receivables are billed monthly. No interest is charged on consumer receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding capital amount exclusive of interest. Assessment rate receivables are billed monthly. No interest is charged on these receivables until the 7th day of the following month. Thereafter interest is charged at a rate determined by council on the outstanding balance.

The municipality enforces its approved credit control policy to ensure the recovery of consumer receivables. Deposits are required to be paid for all water accounts opened.

None of the financial assets that are fully performing have been renegotiated in the last year

### 15. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	21,810	21,350
Bank balances	35,535,212	11,968,318
Short-term deposits	3,829,751	3,000,559
	<b>39,386,773</b>	<b>14,990,227</b>

#### Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral for post office mailing account	300,000	300,000
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#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2017	June 30, 2016	June 30, 2015
ABSA Bank Primary Account	-	-	1,727,433	-	-	10,373,787
Standard Bank Account	33,885,001	11,046,718	9,666,366	35,535,212	11,968,318	1,286,290
ABSA 32 days	-	-	348,454	-	-	348,454
ABSA MIG Funds Account	-	-	58,260	-	-	58,260
ABSA Cheque Account	-	-	304,986	-	-	304,986
ABSA Call Bank	-	-	910,349	-	-	901,349
Standard Bank Account -MIG	52,953	46,522	3,997,550	52,953	46,522	3,997,550
Standard Bank Account -Emba	341,209	320,110	460,490	341,209	320,110	460,490
Standard Bank - Account-Traffic	2,122,654	1,402,790	8,016	2,122,654	1,402,790	8,016
Standard Bank - Call Account	1,312,922	1,231,125	-	1,312,922	1,231,125	-
<b>Total</b>	<b>37,714,739</b>	<b>14,047,265</b>	<b>17,481,904</b>	<b>39,364,950</b>	<b>14,968,865</b>	<b>17,739,182</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>16. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	2,953,039	3,237,064
- in second to fifth year inclusive	491,853	3,444,893
	3,444,892	6,681,957
less: future finance charges	(361,432)	(1,153,110)
	<b>3,083,460</b>	<b>5,528,847</b>
<b>Present value of minimum lease payments due</b>		
- within one year	2,602,656	2,445,387
- in second to fifth year inclusive	480,804	3,083,460
	<b>3,083,460</b>	<b>5,528,847</b>
Non-current liabilities	480,804	3,083,460
Current liabilities	2,602,656	2,445,387
	<b>3,083,460</b>	<b>5,528,847</b>

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 10% (2016: 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

### 17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	916,535	2,951,830
Sports & Development Grant	453,685	453,685
Energy Efficiency & Demand Side Management	-	10,000
Integrated National Electrification Programme Grant	8,497	-
Municipal system improvement Grant	-	35,263
Pre-capacity grant	286,843	405,992
SASOL Point duty officers	313,901	-
SASOL	15,116,475	15,116,475
Financial Management Grant	18,217	434,558
	<b>17,114,153</b>	<b>19,407,803</b>

The grant liability indicated the nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited. Fulfilled conditions and other contingencies attaching to government assistance that has been recognised as revenue and disclosed in the grant income note of the annual financial statements.

### 18. Other financial liabilities

<b>At amortised cost</b>		
Development Bank of South Africa	6,197,566	7,649,904
<b>Non-current liabilities</b>		
At amortised cost	4,612,275	6,240,098

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand 2017 2016

### 18. Other financial liabilities (continued)

#### Current liabilities

At amortised cost	1,585,291	1,409,806
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### 19. Provisions for landfill site

#### Reconciliation of provisions for landfill site - 2017

	Opening Balance	Utilised during the year	Reversed during the year	Change in discount factor	Total
Landfill site	90,033,246	(11,594,757)	3,729,420	1,776,522	83,944,431

#### Reconciliation of provisions for landfill site - 2016

	Opening Balance	Utilised during the year	Reversed during the year	Change in discount factor	Reduction due to re- measurement or settlement without cost to entity	Total
Landfill site	90,475,510	(13,094,518)	2,423,069	5,024,054	5,205,131	90,033,246

Non-current liabilities	81,333,759	88,267,578
Current liabilities	2,610,672	1,765,668
	<b>83,944,431</b>	<b>90,033,246</b>

#### Landfill site rehabilitation provision

The municipality will incur licensing and rehabilitation cost of R 83 944 430 (2016: R90 033 245) to restore landfill sites at the end of their use. As at 30 June 2017, this liability will be incurred over 0 to 35 years. Provision has been made for the net present value of the expenditures expected to be required to settle the obligation using the average cost of borrowings.

In the current year the waste management team accurately accounted for waste dispositions in the landfill sites. The increased accuracy in volumes of waste dumped at these sites resulted in more accurate site life calculations. The effect of the changes resulted in decrease in provisions by R 11 594 757.

The net discount rate increased from 1.97% to 3.11% and thus decreased the liability as at 30 June 2017.

The priced quotations used to quantify the rehabilitation costs and closure costs increased in the financial year. The net effect of the increase was R 1 817 288.



# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 20. Long service award liability

The municipality operates a defined benefit plan for all its employees. The long service award liability is not a funded arrangement, i.e. no separate assets have been set aside to meet its liability.

Under the plan, a long service award is payable after 10 years of continuous service and every 5 years thereafter, until 45 years of service (inclusive) to employees. Furthermore, a retirement gift is payable on retirement to employees with 10 years or more service. The provision is an estimate of a long service based on historical staff turnover. No other long service benefits are provided to employees.

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

At year end, 1,326 (2016: 1,348) employees were eligible for long service awards.

#### Valuation of liabilities

Accrued liabilities are defined as the actuarial present value of all benefits expected to be paid in future based on service accrued to the valuation date and awards projected to retirement date. In determining these liabilities, due allowance has been made for future award increases. For each employee, this projection is based on the probability of being employed at each service award date, taking into account the assumed rates of withdrawal, early retirement and death.

#### Valuation of assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability

The amounts recognised in the statement of financial position are as follows:

#### Carrying amount

Opening balance	(24,479,000)	(23,954,000)
Increase in long service award liability	(2,161,000)	(525,000)
	<b>(26,640,000)</b>	<b>(24,479,000)</b>
Non current liabilities	(24,363,000)	(22,292,000)
Current liabilities	(2,277,000)	(2,187,000)
	<b>(26,640,000)</b>	<b>(24,479,000)</b>

#### Changes in the present value of the long service award liability are as follows:

Opening balance	(24,479,000)	(23,954,000)
Benefits paid	1,926,000	2,444,000
Net expense recognised in the statement of financial performance	(4,087,000)	(2,969,000)
	<b>(26,640,000)</b>	<b>(24,479,000)</b>

#### Net expense recognised in the statement of financial performance

Current service cost	(2,187,000)	(2,306,000)
Interest cost	(2,208,000)	(2,186,000)
Actuarial gains/ (losses)	308,000	1,523,000
	<b>(4,087,000)</b>	<b>(2,969,000)</b>

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 20. Long service award liability (continued)

The discount rate determined by using the Bond Exchange (JSE) Zero Coupon Yield Curve as at 30 June 2017 is 8.45% per annum. The assumed discount rate used at the previous valuation, 30 June 2016, was 9.39% per annum.

At 30 June 2017 the yield on inflation-linked bonds of a similar term was about 2.47% per annum. This implies an underlying expectation of inflation of 5.84% per annum  $([1 + 8.45\%] / [1 + 2.47\%] - 1)$ .

It was assumed that salary inflation would exceed general inflation by 1.0% per annum, i.e. 6.84% per annum. However, it is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 1.51% per annum  $([1 + 8.45\%] / [1 + 6.84\%] - 1)$ .

### Actuarial gain can be attributed to the following factors

Changes in economic variables increased the liability.  
Increase in employees entitled to other long service award benefits.

### Financial variable

Discount Rate	8.45%	9.39%
CPI (Consumer price inflation)	5.84%	7.52%
Normal salary increase rate	6.84%	8.52%
Net effective discount rate	1.51%	1%
Expected retirement age - female	63	63
Expected retirement age - male	63	63

### Sensitivity analysis

The valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership. In order to illustrate the sensitivity of our results to changes in certain key variables, the liabilities were recalculated using the following assumptions:

- 20% increase/decrease in the assumed level of withdrawal rates;
- 1% increase/decrease in the Normal Salary cost inflation.

### Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa. We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%.

### Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future retirees. We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption.

The effect of the above is as follows:

### Withdrawals

	-20% Withdrawal rate	Valuation Assumptions	+20% Withdrawal rate
Total Accrued Liability	25,324,000	26,640,000	28,110,000
Current Service Cost	2,125,000	2,277,000	2,452,000
Interest Cost	2,018,000	2,129,000	2,253,000
	<b>29,467,000</b>	<b>31,046,000</b>	<b>32,815,000</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>20. Long service award liability (continued)</b>		
<b>Normal salary inflation</b>		
	-1% Normal salary inflation	+1% Normal salary inflation
Total Accrued Liability	25,033,000	28,414,000
Current Service Cost	2,119,000	2,453,000
Interest Cost	1,994,000	2,278,000
	<b>29,146,000</b>	<b>33,145,000</b>
<b>21. Payables from exchange transactions</b>		
Trade payables	852,694,872	586,761,906
Accrued leave pay	22,045,186	21,100,887
Accrued bonus	7,744,321	9,168,647
Retentions	14,487,584	15,032,008
Salary control	2,360,860	1,916,479
Other payables	183,037	2,560,629
	<b>899,515,860</b>	<b>636,540,556</b>
<b>22. Payables from non-exchange transactions</b>		
Unallocated receipts	3,464,552	4,569,139
<b>23. VAT payable</b>		
Amount payable	24,642,883	63,687,759
<b>24. Consumer deposits</b>		
Electricity & Water	23,124,103	22,651,297
<b>25. Revenue</b>		
Service charges	1,011,673,961	922,482,577
Rental of facilities and equipment	4,100,433	3,927,269
Interest received on outstanding debtors	44,537,487	55,285,404
Income from agency services	23,730,891	22,502,398
Administration and management fees received	3,139,518	6,447,309
Fees earned	5,000,739	5,488,594
Incidental income	13,003,015	1,307,224
Other income	2,700,524	29,105,501
Interest received - investment	1,538,588	1,518,368
Dividends received	26,668	52,409
Property rates	232,691,021	189,440,509
Government grants & subsidies	284,799,984	326,634,431
Public contributions and donations	-	198
Fines, Penalties and Forfeits	15,085,912	23,370,441
Insurance claims	542,371	733,781
	<b>1,642,571,112</b>	<b>1,588,296,413</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 25. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	1,011,673,961	922,482,577
Rental of facilities and equipment	4,100,433	3,927,269
Interest received (trading)	44,537,487	55,285,404
Agency services	23,730,891	22,502,398
Administration and management fees received	3,139,518	6,447,309
Fees earned	5,000,739	5,488,594
Incidental income	13,003,015	1,307,224
Other income	2,700,524	29,105,501
Interest received - investment	1,538,588	1,518,368
Dividends received	26,668	52,409
	<b>1,109,451,824</b>	<b>1,048,117,053</b>

The amount included in revenue arising from non-exchange transactions is as follows:

Fines	15,085,912	23,370,441
Government grants & subsidies	284,799,984	326,634,431
Insurance claims	542,371	733,781
Property rates	232,691,021	189,440,509
Public contributions and donations	-	198
	<b>533,119,288</b>	<b>540,179,360</b>

### 26. Service charges

Sale of electricity	477,165,818	426,126,216
Sale of water	336,534,061	311,090,595
Sewerage and sanitation charges	91,797,608	86,988,194
Refuse removal	106,176,474	98,277,572
	<b>1,011,673,961</b>	<b>922,482,577</b>

### 27. Other income

Advertising income	152,642	207,848
Commission	16	5,541
Landfill site	827,015	1,987,784
Surplus monies	55,453	10,379,619
Skills development refund	608,095	576,340
Settlement discount	260,524	264,224
Refuse bin sales	-	141
Photocopying	122,393	97,160
Consent use	48,352	49,750
Sundry revenue	348,048	611,268
Retention write-off	277,986	5,762,799
VAT write-off	-	9,163,027
	<b>2,700,524</b>	<b>29,105,501</b>

Sundry revenue relates to other earnings that are not the primary income generating activities of the municipality such as library lost book fines and informal trading fees.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

### 28. Investment revenue

#### Dividend revenue

Other financial asset	26,668	52,409
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#### Interest revenue

Short term investments	1,526,985	1,345,595
Bank	11,603	172,773
	<b>1,538,588</b>	<b>1,518,368</b>

### 29. Property rates

#### Rates received

Residential	133,883,305	120,278,884
Commercial	118,924,768	86,292,625
State	11,066,261	5,401,479
Small holdings and farms	1,936,194	837,567
Churches	1,741,547	1,261,700
Less: Income forgone	(34,861,054)	(24,631,746)
	<b>232,691,021</b>	<b>189,440,509</b>

#### Valuations

Residential	18,996,178,170	12,549,053,031
Commercial	5,453,627,915	3,984,846,085
State	471,588,000	368,870,907
Municipal	382,621,565	778,343,385
Small holdings and farms	2,490,882,785	1,753,680,509
Churches	1,070,355,344	214,483,145
NGO's	232,453,000	11,585,000
	<b>29,097,706,779</b>	<b>19,660,862,062</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2016. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

### 30. Grants and subsidies paid

#### Other subsidies

Electricity indigent support	236,634	400,167
Sewerage indigent support	13,368,827	5,715,092
Rates indigent support	2,169,207	376,410
Refuse indigent support	6,589,461	10,465,486
Water indigent support	10,785,971	8,385,500
Pauper's burial	11,250	33,795
	<b>33,161,350</b>	<b>25,376,450</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

### 31. Government grants and subsidies

#### Operating grants

Equitable share	199,429,829	194,986,048
Extended public works programme	2,568,000	2,145,000
Financial Management Grant	1,606,783	1,165,442
Pre-capacity Grant	119,149	94,008
Municipal system improvement Grant	-	895,584
Municipal Infrastructure Skills Development	14,000,000	26,000,000
Economic Development and Tourism	1,912,766	5,037,589
Department of Minerals and Energy	-	990,000
SASOL - Point duty officers	1,830,216	2,047,350
Gert Sibande District Municipality	1,140,443	1,377,050
	<b>222,607,186</b>	<b>234,738,071</b>

#### Capital grants

Municipal Infrastructure Grant	57,196,295	63,900,236
Gert Sibande District Municipality	-	2,755,383
Sasol	5,000	226,936
SANEDI	-	8,500,000
Rand water	-	631,934
Evander Gold Mine	-	889,904
Energy Efficiency & Demand Side Management Grant	-	1,275,756
Human Settlement Grant	-	3,307,191
Integrated National Electrification programme Grant	4,991,503	2,200,000
PAN African Resources	-	5,270,424
Other Capital grant	-	2,938,596
	<b>62,192,798</b>	<b>91,896,360</b>
	<b>284,799,984</b>	<b>326,634,431</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	85,370,155	131,648,383
Unconditional grants received	199,429,829	194,986,048
	<b>284,799,984</b>	<b>326,634,431</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 213 (2016:200), which is funded from the grant. The subsidy is determined annually by council. All indigent residential households received 10kl water and 50kwh electricity free every month.

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	2,951,830	10,964,066
Current-year receipts	55,161,000	55,888,000
Conditions met - transferred to revenue	(57,196,295)	(63,900,236)
	<b>916,535</b>	<b>2,951,830</b>

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads and sewerage infrastructure as part of the upgrading of previously disadvantaged areas.

#### Gert Sibande District Municipality

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>31. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	(13,684)	(13,684)
Current-year receipts	1,140,443	1,376,524
Conditions met - transferred to revenue	(1,140,443)	(1,376,524)
	<b>(13,684)</b>	<b>(13,684)</b>

This grant was used to construct roads, sewerage and water infrastructure as part of the upgrading of informal settlement areas.

### Sports and Development Grant

Balance unspent at beginning of year	453,685	453,685
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This grant was received for promotion and development of sport. Projects identified for application of the grant will run in the subsequent financial year. No funds have been withheld.

### Municipal Systems Improvement Grant

Balance unspent at beginning of year	35,263	847
Current-year receipts	-	930,000
Conditions met - transferred to revenue	-	(895,584)
Monies withheld by Treasury	(35,263)	-
	<b>-</b>	<b>35,263</b>

The Municipal Systems Improvement Grant is allocated to municipalities to improve municipal systems and is also used to improve technology networks and ward committee operations.

### Pre-capacity grant

Balance unspent at beginning of year	405,992	-
Current-year receipts	-	500,000
Conditions met - transferred to revenue	(119,149)	(94,008)
	<b>286,843</b>	<b>405,992</b>

The grant was allocated to ensure that the social housing programme of provincial government was carried out. The municipality acts as an agent for implementation of the plan.

### Department of Human Settlement

Balance unspent at beginning of year	(9,859,425)	(6,552,234)
Conditions met - transferred to revenue	-	(3,307,191)
	<b>(9,859,425)</b>	<b>(9,859,425)</b>

The Human settlement grant is allocated to municipality for the creation of sustainable human settlements that enables an improved quality of household life and the facilitation and provision of access to basic infrastructure, top structures and basic social and economic amenities that contribute to the creation of sustainable human settlements.

### SASOL

Balance unspent at beginning of year	15,116,475	15,116,475
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### Financial Management Grant

Balance unspent at beginning of year	434,558	-
Current-year receipts	1,625,000	1,600,000
Conditions met - transferred to revenue	(1,606,783)	(1,165,442)
Monies withheld by Treasury	(434,558)	-

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

### 31. Government grants and subsidies (continued)

18,217 434,558

The Finance Management Grant is allocated to assist the municipality to secure sound and sustainable management of the fiscal and financial affairs and to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

#### Extended Public Works Programme

Current-year receipts	2,568,000	2,145,000
Conditions met - transferred to revenue	(2,568,000)	(2,145,000)
	-	-

EPWP grant incentives municipalities to expand work creation efforts through the use of labour intensive delivery methods in the identified focus area and in compliance with the EPWP guidelines.

#### Municipal Skills Development Grant

Current-year receipts	14,000,000	26,000,000
Conditions met - transferred to revenue	(14,000,000)	(26,000,000)
	-	-

The grant is allocate to support the municipality to build long term and sustainable capacity by training a pool of young professionals in technical and project/operations management skills.

#### SANEDI

Current-year receipts	-	8,500,000
Conditions met - transferred to revenue	-	(8,500,000)
	-	-

Funds received from SANEDI to fund smart grid programme.

#### Energy Efficiency & Demand Side Management Grant

Balance unspent at beginning of year	10,000	-
Current-year receipts	-	1,000,000
Conditions met - transferred to revenue	-	(990,000)
Monies withheld by Treasury	(10,000)	-
	-	10,000

Provision of subsidies to municipalities to implement energy efficiency and demand side management initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

#### Integrated National Electrification Programme Grant

Current-year receipts	5,000,000	2,200,000
Conditions met - transferred to revenue	(4,991,503)	(2,200,000)
	8,497	-

Implementation the Integrated National Electrification Programme by providing capital subsidies to municipalities to address the electrification backlog of all existing and planned residential dwellings (including upgrade of informal settlements, new, and normalisation), and the installation of relevant bulk infrastructure.

#### Economic Development and Tourism



# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>31. Government grants and subsidies (continued)</b>		
Balance unspent at beginning of year	(237,589)	-
Current-year receipts	2,464,255	4,800,000
Conditions met - transferred to revenue	(1,912,766)	(5,037,589)
	<b>313,900</b>	<b>(237,589)</b>

Contribution towards the detailed technical feasibility study and the development of business plan for establishment of Industrial Park.

### 32. Public contributions and donations

Public contributions and donations	-	198
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### 33. Employee related costs

Basic	228,947,381	219,360,164
Bonus	16,574,157	15,071,540
Medical aid - company contributions	27,447,278	25,444,849
UIF	2,378,743	2,381,391
SDL	4,335,739	3,494,855
Leave pay provision charge	3,637,523	2,738,831
Pension fund contribution	46,627,534	44,577,704
Defined contribution plans	3,767,851	3,507,987
Travel, motor car, accommodation, subsistence and other allowances	15,435,056	15,377,314
Overtime payments	22,295,114	15,273,476
Long-service awards	3,391,000	3,474,000
Cellphone allowance	2,127,099	2,069,682
Allowances standby	14,107,189	11,654,730
Industrial council levy	124,912	124,632
Non pensionable allowance	48,719,761	44,288,777
Housing subsidy	2,961,455	2,972,724
	<b>442,877,792</b>	<b>411,812,656</b>

### Remuneration of Municipal Manager: Mahlangu MF

Annual Remuneration	1,034,920	1,137,796
Car Allowance	67,734	108,000
Bonus	13,600	21,780
Contributions to UIF, Medical and Pension Funds	211,223	304,185
	<b>1,327,477</b>	<b>1,571,761</b>

The Municipal Manager was appointed on 16 January 2012. The contract for Mr MF Mahlangu ended on the 28 February 2017, Mr Michelle the Regional Manager acting as the Accounting officer since the 1 March 2017 - 18 August 2017.

### Remuneration of Chief Financial Officer: Mokgatsi MJ

Annual Remuneration	1,246,833	1,051,709
Car Allowance	96,000	96,000
Bonus	16,200	21,600
Contributions to UIF, Medical and Pension Funds	234,336	234,584
	<b>1,593,369</b>	<b>1,403,893</b>

The Chief Financial Officer was appointed on 01 June 2010. Mr Mokgatsi's contracted ended on the 30 June 2017, Mr Mahlangu the Deputy Director Revenue Acting as the CFO since the 1 July 2017

## Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

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#### 33. Employee related costs (continued)

##### Remuneration of Director Corporate: Mahlangu ZL

Annual Remuneration	930,777	878,212
Car Allowance	96,000	96,000
Bonus	21,600	21,600
Contributions to UIF, Medical and Pension Funds	184,823	186,533
	<b>1,233,200</b>	<b>1,182,345</b>

The director was appointed on 01 April 2013

##### Remuneration of Director Community Services: Zulu ET

Annual Remuneration	781,632	729,773
Car Allowance	336,000	336,000
Bonus	21,600	21,600
Contributions to UIF, Medical and Pension Funds	154,459	152,728
	<b>1,293,691</b>	<b>1,240,101</b>

The director was appointed on 15 April 2013

##### Remuneration of Director Planning and Development: Wetbooi NS

Annual Remuneration	894,954	851,340
Car Allowance	96,000	96,000
Bonus	21,600	21,600
Contributions to UIF, Medical and Pension Funds	159,679	157,266
	<b>1,172,233</b>	<b>1,126,206</b>

The director was appointed on 01 April 2013

##### Reginal Manager: Sihlali HK

Annual Remuneration	797,344	751,926
Car Allowance	120,000	120,000
Bonus	21,600	21,600
Contributions to UIF, Medical and Pension Funds	164,808	163,128
	<b>1,103,752</b>	<b>1,056,654</b>

##### Regional Manager: Mashiane MR

Annual Remuneration	807,336	758,452
Car Allowance	120,000	120,000
Bonus	21,600	21,600
Contributions to UIF, Medical and Pension Funds	166,309	167,599
	<b>1,115,245</b>	<b>1,067,651</b>

Regional manager was appointed on 01 February 2014

## Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
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#### 33. Employee related costs (continued)

##### Regional Manager: Michele ME

Annual Remuneration	784,785	738,240
Car Allowance	144,000	144,000
Bonus	21,600	21,600
Contributions to UIF, Medical and Pension Funds	164,861	163,353
	<b>1,115,246</b>	<b>1,067,193</b>

Regional manager was appointed on 01 February 2014

##### Remuneration of Director Technical Services Masia MH

Annual Remuneration	748,313	683,539
Car Allowance	96,000	96,000
Bonus	21,600	21,600
Contributions to UIF, Medical and Pension Funds	149,461	138,947
	<b>1,015,374</b>	<b>940,086</b>

The director was appointed on 1 March 2015

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 34. Remuneration of councillors

Councillors	20,574,230	19,725,917
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#### Councillors

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of political office bearers and councillors is within the upper limits as determined by Remuneration of Public Officers Bearers Act no. 20 of 1998 and as per Government Gazette no.37281.

Councillor	Appointment date	SALARY	Pension	Medical aid	Other allowances	Total
Badenhorst HJ	7/5/2017	170,828.13	25,625.40	-	73,071.48	269,525.01
Bosch PR	7/5/2017	57,355.52	8,129.00	-	24,357.16	89,841.68
Botha C	7/5/2017	203,273.62	30,491.40	12,960.00	22,800.00	269,525.02
Buthlezi T M	7/5/2017	25,905.61	2,762.85	-	6,649.94	35,318.40
Cardinal Von Widdern TD	7/5/2017	152,585.65	22,889.00	12,960.00	52,370.49	240,805.14
Chamberlain M	7/5/2017	184,169.00	27,625.65	8,640.00	20,370.49	240,805.14
De Vries GR	7/5/2017	214,543.22	32,181.80	-	22,800.00	269,525.02
Denny TM	7/5/2017	170,828.13	25,625.40	-	73,071.48	269,525.01
Dube TH	5/26/2017	21,934.17	2,682.00	-	2,274.79	26,890.96
Fourie ME	7/5/2017	210,099.02	31,703.05	-	22,800.00	264,602.07
Gwiji CV	7/5/2017	372,387.35	55,859.30	17,280.00	149,176.74	594,703.39
Hlolweni S	7/5/2017	170,192.58	25,530.05	-	45,082.50	240,805.13
Khayiyana MZC	7/5/2017	48,183.38	5,050.20	-	12,933.88	66,167.46
Klaas NP	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14
Labuschagne P J	7/5/2017	19,153.74	1,844.40	1,440.00	6,649.94	29,088.08
Lukhele I	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14
Mabena SS	7/5/2017	20,405.89	2,032.25	-	6,649.94	29,088.08
Mabizela TM	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14
Maboa- Boltman NF	7/5/2017	589,751.95	88,463.90	15,840.00	25,070.15	719,126.00
Mahlangu BD	7/5/2017	155,802.48	23,371.05	17,280.00	73,071.48	269,525.01
Mahlangu BD	7/5/2017	185,421.20	27,813.45	7,200.00	20,370.49	240,805.14
Mahlangu BS	7/5/2017	46,462.07	5,050.20	-	12,933.88	64,446.15
Mahlangu E	7/5/2017	186,673.40	28,001.25	5,760.00	20,370.49	240,805.14
Mahlangu NP	7/5/2017	141,355.85	21,204.10	12,960.00	65,285.18	240,805.13
Mahlangu SM	7/5/2017	20,405.89	2,032.25	-	6,649.94	29,088.08
Majozi NE	7/5/2017	20,405.88	2,032.25	-	6,649.94	29,088.07
Makhanye SA	7/5/2017	383,158.82	57,475.05	17,280.00	148,478.76	606,392.63
Makola MB	7/5/2017	164,934.06	24,638.25	-	79,849.56	269,421.87
Malaza NG	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14
Masango JM	7/5/2017	20,405.88	2,032.25	-	6,649.94	29,088.07
Masango SA	7/5/2017	19,153.74	1,844.40	1,440.00	6,649.94	29,088.08
Maseko TM	12/1/2016	140,654.71	18,772.80	-	13,421.40	172,848.91
Masina HS	7/5/2017	19,153.73	1,844.40	1,440.00	6,649.94	29,088.07
Masina LI	7/5/2017	66,881.43	6,545.75	1,440.00	17,072.50	91,939.68
Masombuka SM	7/5/2017	1,850.12	2,390.85	1,440.00	2,460.65	8,141.62
Masuku PIP	7/5/2017	149,785.85	22,281.10	8,640.00	59,909.85	240,616.80
Mathabe NM	7/5/2017	20,405.88	2,032.25	-	6,649.94	29,088.07
Mathebula SB	7/5/2017	214,543.22	32,181.80	-	22,800.00	269,525.02
Mayisa JS	7/5/2017	19,153.73	1,844.40	1,440.00	6,649.94	29,088.07
Mazibuko KD	7/5/2017	152,625.05	22,894.90	-	65,285.18	240,805.13
Mbokazi AV	7/5/2017	194,258.38	23,596.10	-	59,909.68	277,764.16
Mbonani LM	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14
Mkhaliphi S	7/5/2017	152,625.05	22,894.90	-	65,285.18	240,805.13
Mkhwanazi ZG	7/5/2017	19,153.74	1,844.40	1,440.00	6,649.94	29,088.08
Mkwebane ZA	7/5/2017	214,543.22	32,181.80	-	22,800.00	269,525.02
Mngomezulu MP	7/5/2017	20,405.88	2,032.25	-	6,649.94	29,088.07
Mnisi TR	7/5/2017	186,305.20	27,946.45	6,183.00	20,370.49	240,805.14
Mofokeng TS	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14

# Govan Mbeki Municipality

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### 34. Remuneration of councillors (continued)

Mokoena BD	7/5/2017	152,625.05	22,894.90	-	65,285.18	240,805.13
Moloto BD	7/5/2017	174,490.35	26,174.70	-	40,140.08	240,805.13
Morajane TA	7/5/2017	152,625.05	22,894.90	-	65,285.18	240,805.13
Mosomane MI	7/5/2017	135,206.07	20,281.30	-	58,857.53	214,344.90
Motaung AD	7/5/2017	20,405.89	2,032.25	-	6,649.94	29,088.08
Motloung ME	7/5/2017	182,742.45	27,412.20	-	30,650.49	240,805.14
Mtshali PD	7/5/2017	397,343.50	59,602.65	-	148,478.76	605,424.91
Mtsweni LJ	7/5/2017	20,405.88	2,032.25	-	6,649.94	29,088.07
Mtsweni MJ	7/5/2017	170,828.13	25,625.40	-	73,071.48	269,525.01
Mtsweni TA	7/5/2017	269,424.30	40,414.05	17,280.00	242,194.92	569,313.27
Mtsweni TP	7/5/2017	371,406.36	55,712.10	-	142,194.82	569,313.28
Mukhwanazi AO	7/5/2017	148,703.74	22,306.80	-	69,794.60	240,805.14
Mvundla WI	7/5/2017	20,405.88	2,032.25	-	6,649.94	29,088.07
Mzinyane TE	7/5/2017	19,153.74	1,844.40	1,440.00	6,649.94	29,088.08
Ndaba BB	7/5/2017	348,447.23	52,268.20	17,280.00	151,317.82	569,313.25
Ndinisa BJ	7/5/2017	20,405.89	2,032.25	-	6,649.94	29,088.08
Ndlovu SJ	7/5/2017	20,405.88	2,032.25	-	6,649.94	29,088.07
Ndoda NM	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14
Ndwanyaza PN	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14
Nel Buitendag AD	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14
Ngxonono YT	7/5/2017	383,158.82	57,475.05	17,280.00	148,478.76	606,392.63
Nhlapho Md	7/5/2017	180,959.44	32,689.04	-	73,071.48	286,719.96
Njinga SC	7/5/2017	188,039.11	28,206.25	-	24,559.78	240,805.14
Nkabinde E R	7/5/2017	143,525.44	21,529.90	15,840.00	59,909.85	240,805.19
Nkabinde JB	7/5/2017	170,828.13	25,625.40	-	73,071.48	269,525.01
Nkabinde MA	7/5/2017	20,405.89	2,032.25	-	6,649.94	29,088.08
Nkambule FB	7/5/2017	48,183.32	5,050.20	-	12,933.88	66,167.40
Nkokoane ME	7/5/2017	24,048.77	2,578.65	-	2,460.65	29,088.07
Nkosi MJ	7/5/2017	170,828.13	25,625.40	-	73,071.48	269,525.01
Nkosi NE	7/5/2017	383,158.82	57,475.05	17,280.00	148,478.76	606,392.63
Nkosi NK	7/5/2017	20,405.88	2,032.25	-	6,649.94	29,088.07
Ntuli GN	7/5/2017	19,153.74	1,844.40	1,440.00	6,649.94	29,088.08
Ntuli SR	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14
Nxumalo NJ	7/5/2017	19,153.74	1,844.40	1,440.00	6,649.94	29,088.08
Nzama PG	7/5/2017	20,405.89	2,032.25	-	6,649.94	29,088.08
Pretorius RJ	7/5/2017	20,405.88	2,032.25	-	6,649.94	29,088.07
Sebolela JD	7/5/2017	152,625.05	22,894.90	-	65,285.18	240,805.13
Shai KJ	7/5/2017	171,443.58	24,807.30	-	34,980.95	231,231.83
Sibande ES	7/5/2017	19,153.74	1,844.40	1,440.00	6,649.94	29,088.08
Sibanyoni SI	7/5/2017	158,923.00	23,839.50	14,400.00	45,082.59	242,245.09
Sithole LE	7/5/2017	146,740.78	22,012.20	7,200.00	64,852.27	240,805.25
Swart EP	7/5/2017	191,682.00	28,752.65	-	20,370.49	240,805.14
Thabeyhe IM	7/5/2017	182,742.40	27,412.25	-	30,650.49	240,805.14
Tlou DI	7/5/2017	19,153.74	1,844.40	1,440.00	6,649.94	29,088.08
Tsotetsi TJ	7/5/2017	20,405.89	2,032.25	-	6,649.94	29,088.08
Van Baalen JA	7/5/2017	19,153.74	1,844.40	1,440.00	6,649.94	29,088.08
Van Huyssteen NC	7/5/2017	155,802.48	23,371.05	17,280.00	73,071.48	269,525.01
Van Rooyen EJ	7/5/2017	170,828.13	25,625.40	-	73,071.48	269,525.01
Victor NS	7/5/2017	20,405.89	2,032.25	-	6,649.94	29,088.08
Vilakazi EA	7/5/2017	155,802.48	23,371.05	17,280.00	73,071.48	269,525.01
Zulu NN	7/5/2017	20,405.89	2,032.25	-	6,649.94	29,088.08
Zulu TS	7/5/2017	170,828.13	25,625.40	-	73,071.48	269,525.01
Zuma NG	7/5/2017	375,041.37	56,256.45	-	148,616.99	579,914.81
Zwane PJ	7/5/2017	19,153.74	1,844.40	1,440.00	6,649.94	29,088.08
<b>Total</b>		<b>14,072,919.84</b>	<b>2,065,908.89</b>	<b>304,263.00</b>	<b>4,131,138.83</b>	<b>20,574,230.56</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>34. Remuneration of councillors (continued)</b>		
<b>Appointments</b>		
Govan Mbeki Municipality after local government elections that took place on the 1 August 2016 - 3 August 2016 the above elected council was sworn in office on the 18 August 2016		
<b>Terminations</b>	<b>Date</b>	<b>Reason</b>
Mtsweni TA	2017/06/25	Death
Bosch PR	2016/10/31	Resignation
Mosomane MI	2017/05/25	Resignation
<b>35. Depreciation and amortisation</b>		
Property, plant and equipment	158,817,922	160,700,906
Intangible assets	535,528	481,164
	<b>159,353,450</b>	<b>161,182,070</b>
<b>36. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	8,644,861	1,693,493
<b>37. Finance costs</b>		
Employee obligation interest	6,715,000	6,686,000
Trade and other payables	32,393,223	29,148,529
Finance leases	791,677	1,033,349
Bank	-	3
Current borrowings	772,950	1,135,365
Land fill site	1,776,522	2,423,069
	<b>42,449,372</b>	<b>40,426,315</b>
<b>38. Debt impairment</b>		
Debt impairment	227,097,345	140,889,950
<b>39. Bulk purchases</b>		
Electricity	578,189,444	501,281,325
Water	239,097,223	217,821,000
	<b>817,286,667</b>	<b>719,102,325</b>
<b>40. Contracted services</b>		
Legal services	8,776,844	4,806,085
Meter reading	9,769,411	9,967,529
Security services	25,935,853	21,191,676
Professional fees	11,386,087	10,644,267
Other contractors	29,756,038	31,090,938
	<b>85,624,233</b>	<b>77,700,495</b>

Other contractors mainly include contracted sewerage purification services, prepaid vending management as well as assessment services.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>41. General expenses</b>		
Advertising	14,823	52,892
Animal Costs	60,000	230,000
Auditors remuneration	4,259,187	4,662,721
Bank charges	3,597,670	3,807,301
Cleaning	16,113	-
Conferences and seminars	66,000	18,000
Connection fees	692,968	480,578
Consumables	808,576	925,775
Donations	57,147,850	-
Entertainment	136,159	58,151
Fleet	2,446,568	2,258,332
Grants expenditure	20,448,720	32,426,082
Investigation fees	-	302,877
IT expenses	1,388,714	656,900
Insurance	2,583,788	4,328,494
Inventory losses	593,669	1,312,236
Medical expenses	83,340	33,787
Motor vehicle expenses	3,156,269	3,329,026
Other expenses	846,419	639,182
Pest control	1,375	7,099
Placement fees	67,721	31,643
Postage and courier	2,415,321	2,472,180
Presenting costs	117,518	32,520
Printing and stationery	2,481,459	2,923,250
Professional fees	4,044,779	4,355,307
Promotions and sponsorships	846,246	1,500
Protective clothing	1,742,010	1,683,804
Rehabilitation costs	55,257	57,607
Rental: machinery & equipment	8,207,701	14,175,576
Subscriptions and membership fees	4,948,259	4,481,622
TV licenses	28,162	20,920
Telephone and fax	1,834,970	2,127,315
Transport and freight	12,060,772	12,602,445
Travel	953,939	879,204
Workshop	2,947,436	3,406,371
	<b>141,099,758</b>	<b>104,780,697</b>
<b>42. Fair value adjustments</b>		
Investment property	89,121,714	-
Other financial assets	(174,117)	(22,735)
	<b>88,947,597</b>	<b>(22,735)</b>
<b>43. Auditors' remuneration</b>		
Fees	4,259,187	4,662,721

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>44. Cash generated from operations</b>		
Deficit	(632,031,775)	(216,116,524)
<b>Adjustments for:</b>		
Depreciation and amortisation	159,353,450	161,182,070
Loss on sale of assets	319,495,177	19,410,300
Actuarial gains/(losses)	(4,677,000)	(2,623,000)
Fair value adjustments	(88,947,597)	22,735
Impairment on assets	8,644,861	1,693,493
Debt impairment	227,097,345	140,889,950
Grants and subsidies-non cash	33,161,350	25,376,450
Other non-cash items	6,040,188	(67,856,825)
Donations	57,147,850	-
	<b>85,283,849</b>	<b>61,978,649</b>

## 45. Financial instruments disclosure

### Categories of financial instruments

#### 2017

#### Financial assets

	At fair value	At amortised cost	Total
Cash and cash equivalents	-	39,386,773	39,386,773
Consumer debtors	-	181,645,587	181,645,587
Receivables from exchange transactions	-	1,492,388	1,492,388
Other financial assets	1,215,321	9,769,395	10,984,716
Receivables from non-exchange transactions	-	34,162,385	34,162,385
Long term receivables	-	3,709,643	3,709,643
	<b>1,215,321</b>	<b>270,166,171</b>	<b>271,381,492</b>

#### Financial liabilities

	At amortised cost	Total
Finance lease obligation	3,083,460	3,083,460
Other financial liabilities	6,197,566	6,197,566
Trade and other payables from exchange transactions	899,515,860	899,515,860
Trade and other payables from non-exchange transactions	3,464,552	3,464,552
	<b>912,261,438</b>	<b>912,261,438</b>

#### 2016

#### Financial assets

	At fair value	At amortised cost	Total
Other financial assets	1,389,437	9,030,226	10,419,663
Receivables from exchange transactions	-	12,315,525	12,315,525
Trade and other receivables from non-exchange transactions	-	33,965,240	33,965,240
Long term receivables	-	41,248,306	41,248,306
Consumer debtors	-	167,550,935	167,550,935
Cash and cash equivalents	-	14,990,227	14,990,227
	<b>1,389,437</b>	<b>279,100,459</b>	<b>280,489,896</b>

#### Financial liabilities



# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

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2016

### Financial instruments disclosure (continued)

	At amortised cost	Total
Finance lease obligation	5,528,847	5,528,847
Other financial liabilities	7,649,904	7,649,904
Trade and other payables from exchange transactions	636,540,556	636,540,556
Taxes and transfers payable (non-exchange)	4,569,139	4,569,139
	<b>654,288,446</b>	<b>654,288,446</b>

### Financial instruments in Statement of financial performance

#### 2017

	At fair value	At amortised cost	Total
Interest income from outstanding receivables	-	44,537,487	44,537,487
Interest expense	-	(42,449,372)	(42,449,372)
Interest income	-	1,538,388	1,538,388
Fair value adjustments on financial assets	(174,117)	-	(174,117)
Debt impairment	-	(227,097,345)	(227,097,345)
Dividends	26,668	-	26,668
	<b>(147,449)</b>	<b>(223,470,842)</b>	<b>(223,618,291)</b>

#### 2016

	At fair value	At amortised cost	Total
Interest income from outstanding receivables	-	55,285,404	55,285,404
Interest expense	-	(40,426,315)	(40,426,315)
Interest income	-	1,518,368	1,518,368
Fair value adjustments on financial assets	22,734	-	22,734
Debt impairment	-	140,889,950	140,889,950
Dividends	52,409	-	52,409
	<b>75,143</b>	<b>157,267,407</b>	<b>157,342,550</b>

## Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>46. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	63,284,040	84,786,519
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Operating contracts commitments	40,327,494	100,149,726
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	63,284,020	84,786,519
Authorised operational expenditure	40,327,494	100,149,726
	<b>103,611,514</b>	<b>184,936,245</b>

#### Commitment correction and reclassification

Reclassification of R 4 806 049 from operational commitments to capital commitments in the previous year,

The project for construction of new road was capitalised last year and incorrectly classified as commitment. The effect of correction relating to commitments disclosed to the value of R 3 420 776 were completed in the previous financial, however they were disclosed as commitments.

## Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

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#### 47. Contingencies

##### Contingent liabilities

The following legal proceedings are currently in progress and are represented by various attorneys:

##### Cronje De Waal & Skhosana

Govan Mbeki Municipality vs Pit Bok Construction cc	7,000,000	9,021,856
Govan Mbeki Municipality vs Bosch	25,781,855	25,781,855
Govan Mbeki Municipality vs NICS (Pty) Ltd	40,000,000	-
	<b>72,781,855</b>	<b>34,803,711</b>

##### Ramathe MJ Attorneys

Govan Mbeki Municipality vs Junior Joubert	-	102,000
Govan Mbeki Municipality vs Khumalo Sam and Moses	-	130,000
Govan Mbeki Municipality vs CP Roers obo Snoers	550,000	550,000
	<b>550,000</b>	<b>782,000</b>

##### TMN Kgomo Attorneys

Govan Mbeki Municipality vs Fikile Esther Hlanze	-	124,900
Govan Mbeki Municipality vs JH Odendaal	255,000	255,000
	<b>255,000</b>	<b>379,900</b>

##### Other

Govan Mbeki Municipality vs MBV Mavuso/Minor children	800,000	800,000
Govan Mbeki Municipality vs Jannie Welthagen	8,900	8,900
Govan Mbeki Municipality vs Vos Viljoen & Burger	-	5,640
Govan Mbeki Municipality vs Simstone Pty Ltd and Moanalesa	-	21,000
Govan Mbeki Municipality vs Marnelle Rauch	21,000	10,901
Govan Mbeki Municipality vs Hermanus Steyn	-	238,369
Govan Mbeki Municipality vs Elvis Lerato Mosele	2,250,000	2,250,000
Govan Mbeki Municipality vs Mashego Phetla	19,875	19,875
Govan Mbeki Municipality vs Telkom	90,332	90,333
Govan Mbeki Municipality vs Telkom/Thisila Enterprises	-	25,000
Govan Mbeki Municipality vs Kenneth Frank Cameron	-	3,100,000
Govan Mbeki Municipality & M I Makhanye vs K R Lester	-	250,641
Govan Mbeki Municipality vs Telkom SA	19,583	11,131
Govan Mbeki Municipality vs J E Mabona//Public Protector	-	1,581,053
Govan Mbeki Municipality vs Joseph Visagie	135,413	135,413
Govan Mbeki Municipality vs Coleman Catharina Talita	750,000	750,000
Govan Mbeki Municipality vs Gwen Borthardt	7,320	-
Govan Mbeki Municipality vs C Venske	700,000	-
Govan Mbeki Municipality vs Johnston Ronald Graeme Murray	2,250,000	-
Govan Mbeki Municipality vs Revco (Pty)Ltd	443,997	-
Govan Mbeki Municipality vs EDSE	307,749	-
Govan Mbeki Municipality vs SMEC South Africa	129,964	-
	<b>7,934,133</b>	<b>9,298,256</b>

Total contingent liabilities

81,520,988 45,274,539

##### Contingent assets

In addition to the court cases disclosed below, there are certain court cases which are more complex and costs cannot be determined. The following are the determinable contingent assets:

##### Cronje De Waal & Skhosana Attorneys

Mindsgate vs Govan Mbeki Municipality	2,000,000	2,000,000
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# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>47. Contingencies (continued)</b>		
<b>TMN Kgomo and Associates</b>		
Management Skills vs Govan Mbeki Municipality	-	427,000
Total contingent assets	2,000,000	2,427,000

## 48. Related parties

### Relationships

Duduzile Maseko - employee

Director of Lucky Jane trading and projects is a co-director in Siyaticenga ngani trading CC with Duduzile Maseko.

Ellen Sarah khumalo - employee

Director of Minoah Suppliers and projects is a co-director in Tsalanang investments (PTY) LTD with Ellen Khumalo(employee).

Sipho Fakude - employee

Director of Singemalangen Logistics cc and projects is a co-director in Nkomasefa trading and project cc with Sipho Fakude (employee).

Nontembiso Sqoko - employee

Director of Sondie Trading enterprise and projects is a co-director inkhwezi primary co-operative limited Nontembiso Sqoko(employee).

Zakhele Masilela - employee

Director of Clarabarna general trading cc is a co-director in NkoSix skipas trading and project cc with Zakhele Masilela (employee).

Zakeu Mahlangu

Director of TMN Kgomo & associates and projects is a co-director Brodsky trading 180 Zakeu Mahlangu (Director Corporate Services).

Members of key management

BM Mhlanga  
ET Zulu  
ZL Mahlangu  
NS Wetbooi  
HK Sihlali  
ME Michele  
MR Mashiane  
MH Masia  
MJ Mahlangu

## Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand	2017	2016
<b>48. Related parties (continued)</b>		
<b>Related party balances</b>		
<b>Amounts included in Trade payables</b>		
Clarabarna general trading cc	90,000	-
Sondie Trading enterprise	5,376	-
Lucky Jane Trading and Projects	-	1,381,206
Thisila Trading Enterprise	-	273,144
Westvaal Holding (Pty) Ltd	-	37,441
Vuma Konke Transport & Project CC	82,222	-
<b>Amounts included in statement of financial performance</b>		
<b>Hire of plant equipment</b>		
Vuma Konke Transport and project CC	11,518,740	12,295,229
Lucky Jane Trading and Projects	301,644	136,800
Singamalangeni Logistics CC	251,712	413,136
Sondie Trading Enterprise	828,504	404,900
Thisile Trading Enterprise	-	372,324
Ndluwakho Construction & Projects	50,524	-
<b>Consumables</b>		
Minoah suppliers solutions (pty) ltd	-	3,524
Clarabarna General Trading	340,982	712,070
<b>Legal services</b>		
TMN Kgomo & Associates	1,896,087	821,169
<b>Repairs and Maintenance</b>		
Wetvaal Holdings (Pty) Ltd	-	160,889

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

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### 49. Change in estimate

#### Property, plant and equipment

GRAP 17: Property, Plant and Equipment requires that the review of the remaining useful life of an item of property, plant and equipment to be conducted at least at each financial year end. Such review has been completed and the following results were achieved.

#### Change in depreciation resulting from reassessment of useful lives. The following categories are affected:

	Value derived using the original estimate	Value derived using amended estimate	R-value impact of change in estimate
Library books	430,001	207,178	222,823
Computer equipment	1,044,564	364,675	679,889
Transport Assets	3,742,227	1,339,158	2,403,069
Other machinery and equipment	2,171,485	790,739	1,380,746
Furniture and office equipment	2,252,150	771,786	1,480,364
Buildings	308,148	127,100	181,048
Electricity	194,009	94,291	99,718
Roads and Stormwater	1,131,709	458,431	673,277
Cemetery	6,675	3,023	3,653
Airport	18,421	6,151	12,269
Water	2,457	874	1,583
	<b>11,301,846</b>	<b>4,163,406</b>	<b>7,138,439</b>

#### Change in depreciation resulting from reassessment of residual value. The following categories are affected:

	Value derived using the original estimate	Value derived using amended estimate	R-value impact of change in estimate
Transport Assets	-	140,686	140,686
Other machinery and equipment	-	739	739
	-	<b>141,425</b>	<b>141,425</b>

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

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### 50. Prior period errors

#### 1. Landfill site

Useful lives of the landfill site as per the asset register of 2016 not correctly aligned to the useful lives included in the Landfill Rehab & Closure Provisions report of 2016. The effect of the correction was increase in the Landfill site assets, decrease in the accumulated depreciation and decrease in depreciation with an amount of R 756 367.75.

#### 2. Assets Under Construction

Construction of sports and recreational community hall (multi-purpose centre) in Emzinoni was incorrectly unbundled in the prior year, practical completion certificate was used instead of the final completion certificate. The effect of correction increased Property, plant and equipment R 5 879 and decrease in depreciation by R 5 879.

#### 3. Library books

During the assets verification process Library books were found on the floor and not in the asset register. The newly found assets were valued to R 91 657. The effect of the correction resulted in an increase in Library goods by R 91 657, increased depreciation by 10 184 and increased accumulated depreciation by R 20 196 and decrease in accumulated surplus by R 81 645.

#### 4. Land

Reversing of the disposal in the prior period and correctly disposing the property in the current year as a result of the amendment in deed of sale. The effect of the correction decreased land by R 722 220, increased creditors by R 171 000, decrease in profit on sale of assets by R 144 546.19, decrease in vat liability by R 21 000 and decrease opening accumulated surplus by R 727 674.

#### 5. Movables

Assets written off by insurance not removed from the asset register after the claim was approved. The correction resulted in a decrease of Property, Plant and Equipment by R 25 760, decrease in depreciation by R 4 912 and increase loss on disposal of assets by R 30 673.

Assets stolen in Kinross storeroom and reported in August 2015 was not removed from the asset register in the 2016 asset register. The removal of assets from the register decreased property, plant and equipment by R 7 894 and increased loss on disposal of assets by R 7 894.

#### 6. Buildings

Land occupied by Secunda Lapa 2 was sold in 2006, the land was removed from the asset register however the building associated with the land was not removed from the asset register. The effect of the correction decreased buildings by R 86 034, decreased depreciation by 17 577 and increased retained opening balance by R 70 407.

Correction of communications of findings 12 of 2016 on buildings depreciation which was incorrectly captured as a credit instead of debit. The effect of the correction resulted in the increase in depreciation and decrease in property, plant and equipment by R 33 204.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

Figures in Rand

### 50. Prior period errors (continued)

#### 7. Investment Property

The asset management policy was changed to account for sale of properties in full when the full payment is made and the deed of sale is signed. The effect of the correction resulted in a decrease in investment property by R 180 000, and opening accumulated surplus decrease by R 180 000.

#### 8. Consumer debtors

Consumer accounts were incorrectly billed in previous year due to various reasons i.e. incorrect tariff charged, incorrect readings, supplementary valuations etc., the correction of the error resulted in decrease in consumer debtors by R 32 158 025, decrease in receivables from non exchange by R 1 339 231, decrease in long term receivables by R 51 601, increase in property rates revenue by R 1 091 776, decrease in service charges by R 28 661 034, decrease in VAT liability by R 3 445 390, and increase in rental income by R 282 098.

#### 9. Other income

Licence fees for municipal cars registration for previous year which were not removed from the suspense vote to licencing income. Amount for registration of municipal car for June 2016 has been recognised in July 2017, which overstated the licensing fees of 2016/17 year.

Library fees to the value of R 68 442 were incorrectly recorded as Sundry deposit in statement of Financial Position instead of income. The effect increased income from agency fees by R 72 328, Other income increased by R 68 442 and Payables from non-exchange transactions decreased by R 140 770.

Retention liability to the value of R 59 893 was erroneously not written off in the previous financial year. The correction resulted in an increase in other income and decrease in trade and other payables by the same amount.

#### 10. Bulk purchases water

In 2014 consultation processes by Rand water Eskom informed them that the electricity tariff will increase by 15% however NERSA approved a 10.05% increase. The adjustment there-of resulted in an adjustment of 4.6cents per kilolitre on the sales tariff invoiced to customers. As a result Rand Water refunded the municipality the over invoiced amounts. The impact there-of resulted in an increase in opening accumulated surplus by R 3 387 561, decrease in Trade and other receivables by R 11 378 415 Increase in VAT liability by R 1 335 731.73 and decrease in bulk purchases by R 6 448 688.

### Statement of financial position

#### Non current assets

Property plant and equipment	(36,407)
Investment property	180,000
Long term receivables	51,601
	<b>195,194</b>

#### Current assets

Consumer debtors	(31,875,928)
Trade receivables from exchange transactions	11,378,415
Trade receivables from non-exchange transactions	(1,091,776)
	<b>(21,589,289)</b>

#### Current liabilities

Payables from exchange transactions	128,335
Payables from non-exchange transactions	(98,672)
VAT	2,096,014
	<b>2,125,677</b>

#### Accumulated surplus

Adjustment to opening accumulated surplus	(2,923,871)
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## Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

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#### 50. Prior period errors (continued)

##### Statement of financial performance

###### Revenue

Service charges	28,661,034
Property rates	1,091,776
Income from agency fees	(72,328)
Interest received on outstanding debtors	(206,430)
Other income	(59,893)
Rental income	(238,375)
Profit and loss on sale of assets	208,653
	<b>29,384,437</b>

###### Expenditure

Depreciation	(743,462)
Bulk purchases	(6,448,688)
	<b>(7,192,150)</b>

#### 51. Comparative figures

Certain comparative figures have been reclassified.

#### 52. Risk management

##### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

##### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

##### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by council.

##### Market risk

##### Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

# **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

## **Notes to the Annual Financial Statements for the year ended 30 June 2017**

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### **53. Going concern**

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **54. Events after the reporting date**

The following events occurred after reporting date however before the issue of the financial statements to the office of the Auditor General:

#### **Adjusting events**

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 54. Events after the reporting date (continued)

The following items were written off by council subsequent year end in the council sitting held on the 29 August 2017 through council resolution A78/08/2017, subsequent adjustments were made in the annual financial statement:

#### Movable and intangible assets

Total number of 4511 assets with a carrying value of R 2 505 112 was identified for write off on the fixed assets register and the annual financial statements. The write-off was as a result of the following:

- Assets kept on the register however could not be found during the physical verification for three consecutive financial years.
- Assets written off by insurance company
- Assets lost
- Laptops disposed to outgoing councillors.

#### Investment property and land

Total number of 53 assets with a carrying value of R 2 837 674 was identified for write off on the fixed assets register and the annual financial statements. The write-off was as a result of the following:

- Property descriptions that could not be traced on the deeds due to the fact that the township was relayed out and subsequently consolidated
- Properties which were erroneously kept on the register whereby RDP houses were approved by the department of human settlement
- The Land register erroneously included properties which are privately owned and the municipality has no control over those properties

#### Landfill Sites

Total of 3 landfill sites assets with the carrying amount of R 145 070 which were stolen during the year which were reported to the insurance company.

#### Buildings

The building register included Secunda Lapa 2, the land where the Lapa was erected was sold to Velvet Moon Properties 55 Pty (Ltd) in terms of a signed agreement in 2006. The land was removed from the register; however, the building was erroneously left on the register and was demolished by the owner of the Land.

#### Library Books

Total number of 2254 assets with a carrying value of R 187 851 was identified for write off on the fixed assets register and the annual financial statements. The write-off was as a result of the following:

- 437 books that could not be found during physical verification for three consecutive financial years, i.e. 2015, 2016 and 2017.
- donation of 1 817 books that are mutilated due to heavy or regular use by library users.

#### Retentions

An unclaimed retention to the value of R 337 879.48 was written off as per the retention policy of council.

The retention policy approved by council states that "it is the responsibility of the contractor to submit a claim for the retention once the defects liability period has lapsed. Unclaimed retentions which is over two (2) years after the defect liability period will be written off based on this policy and amount written off from the retention register and municipality's accounting records

#### Inventory

An amount of R593 673.84 was written off due to stock count variances identified during physical between actual stock on the floor and SEBATA financial management system

#### Consumer debtors

Council approved 927 write-off total amount of R 10, 816, 645-90 in respect of the Irrecoverable Bad Debt registered indigents, against the provision for bad debt in terms of Sections 25 of the Credit Control & Debt Collection Policy due to the following :

- In 2016/2017 the council has approved 4339 indigent applications write-off to the value of R 45 208 904.44 as per Council Resolution A10/01/2017, when the list was submitted to the Council for approval it was noted that the list had only current balances of R 45 208 904.44 and the balances on the loan accounts were not included to the value of R 10 816 645.90.
- Loan accounts consisted of the debtors handed over to our collection agencies or debtors who signed arrangements before they were approved as indigents.

#### Irregular expenditure

Irregular expenditure amounting to R142 191 756 were approved for write-off by council.

-Included in the opening balance of R92 239 723 is additional irregular expenditure amounting to R60 177 377 from the

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 54. Events after the reporting date (continued)

previous financial year that was raised by the Auditor General during the audit.

#### Deviations

Section 4(2)(1) of the Supply Chain Management Policy read with item 26(2) of Municipal Supply Chain Regulation states that the accounting officer may dispense with the official procurement processes and must record reasons and report to the next Council Meeting and include as a note in the Annual Financial Statements. The total amount of R 2 375 050 incurred as a result of emergencies, services received from sole proprietors and where it was impractical to follow SCM processes was disclosed and reported.

#### Fruitless and wasteful expenditure

Fruitless and Wasteful Expenditure Register incurred during the 2016/2017 financial year amounting to R 32 393 223 was approved for write-off by council.

Fruitless and Wasteful Expenditure was incurred due to late payments of service providers mainly Eskom, Auditor General and Rand Water accounts and late payments are the results of cash flow constraints.

#### Unauthorised expenditure

Unauthorized expenditure to the value of R 596 991 924 (2016: R 2 432 461) was approved by council for write off.

- The unauthorised expenditure of 2017 amounting to R 596 991 924 was as a result of the differences identified between the budgeted amounts and actual amounts, of the approved amount only R 180 799 770 was disclosed, i.e. due to the fact that the remaining R 416 192 153 is comprised of the non-cash items.

- The unauthorised expenditure of 2016 amounting to R2,432,461.82 for the year ended 30 June 2016 as disclosed on the financial statements as a result of year end provisions on Long term service awards and Employee benefit obligations from the actuarial valuation report prepared annually for the municipality by Actuaries.

### Non adjusting events

At the Extra Ordinary Council Meeting of the 15th of August 2017, the council of Govan Mbeki Municipality resolved through resolution number CA12/08/2017 to appoint Mr BM Mhlana as the Acting Municipal Manager.

### 55. Unauthorised expenditure

Opening balance	2,432,461	-
Unauthorised expenditure incurred	180,799,771	2,432,461
Amounts written off by council	(183,232,232)	-
	<b>-</b>	<b>2,432,461</b>

The unauthorized expenditure for 2016/17 amounting to R 183 232 232 was approved by Council through resolution A78/08/2017.

### 56. Fruitless and wasteful expenditure

Opening balance	30,553,483	1,404,954
Incurred in the current year	32,393,223	29,148,529
Less: amounts written off	(62,946,706)	-
	<b>-</b>	<b>30,553,483</b>

#### Details of fruitless and wasteful expenditure

Interest charged by Eskom	31,172,196	28,712,206
Interest charged by Rand water	1,129,140	-
Interest charged by Telkom	7,103	27,349
Interest charged by sundry creditors	84,784	408,974
	<b>32,393,223</b>	<b>29,148,529</b>

## Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

### Notes to the Annual Financial Statements for the year ended 30 June 2017

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#### 56. Fruitless and wasteful expenditure (continued)

Fruitless and wasteful expenditure from previous year amounting to R 30 553 483 was approved for write off by council in August 2016 as per resolution A72/08/2016. Fruitless and wasteful expenditure amounting to R 32 393 223 was approved on the 29 August 2017 as per resolution A78/08/2017

No disciplinary process have been taken by the municipality due to the fact that the expenditure was incurred as a result of cash flow constraints.

#### 57. Irregular expenditure

Opening balance	171,244,986	79,005,262
Add: Irregular Expenditure - current year	82,014,380	92,239,724
Less: Amounts written off	(253,259,366)	-
	<b>-</b>	<b>171,244,986</b>

#### Details of irregular expenditure – current year

Services received without contracts	24,142,787	92,239,724
Month-to-month contracts	12,255,360	-
Non-compliance with SCM regulations	45,616,232	-
	<b>82,014,379</b>	<b>92,239,724</b>

Irregular expenditure amounting to R 111 067 610 written off by council on the 29 August 2016 through resolution A72/08/2016 and besides on the 29 August 2017 council approved irregular expenditure of R 142 191 756 (R 60 177 375 and R 82 014 379 incurred in 2016 and 2017 respectively) as per resolution A78/08/2017.

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 58. Additional disclosure in terms of Municipal Finance Management Act

#### Material losses incurred

Electricity losses in kilowatts	281,624,734	253,051,127
Water losses in kilolitres	9,997,257	8,161,856
	<b>291,621,991</b>	<b>261,212,983</b>

#### Audit fees

Amount paid - current year	4,259,187	4,662,721
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#### South African Revenue Services

PAYE	56,353,622	49,476,274
SDL	3,624,771	3,375,061
UIF	4,792,273	4,767,578
VAT paid/(refund)	(4,647,822)	(8,108,879)
	<b>60,122,844</b>	<b>49,510,034</b>

#### VAT

VAT payable	24,642,883	63,687,759
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All VAT returns have been submitted by the due date throughout the year.

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2017:

June 30, 2017	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Badenhorst HJ	112	733	845
De Vries GR	1,127	2,557	3,684
Fourie BJ & ME	17,180	3,210	20,390
Gwiji CV	385	494	879
Klaas B	120	364	484
Mabizela TM	2,873	9,059	11,932
Maboa NF	570	1,029	1,599
Mahlangu BD	1,067	14,921	15,988
Makhaye SA	1,927	3,909	5,836
Mazibuko KD	116	635	751
Mofokeng TS	16,504	727	17,231
Mukhwanazi AO	943	1,881	2,824
Nhlapo MD	57	697	754
Nkabinde JB	1,986	15,296	17,282
Ntuli SR	976	1,617	2,593
Sebolela JD	172	845	1,017
Vilakazi EA	908	574	1,482
	<b>47,023</b>	<b>58,548</b>	<b>105,571</b>
June 30, 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 58. Additional disclosure in terms of Municipal Finance Management Act (continued)

Van Huyssteen NC	2,268	745	3,013
Mnguni JM	1,012	4,059	5,071
Buthelezi TM	960	4,256	5,216
Ntuli FB	2,103	1,189	3,292
Mkwanazi DS	2,693	13,574	16,267
	<b>9,036</b>	<b>23,823</b>	<b>32,859</b>

### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved by the Accounting officer and noted by Council. The expenses incurred as listed hereunder have been approved by the Accounting officer .

#### Incident

Emergency	53,548	13,154
Impractical to follow processes	1,543,702	3,234,092
Sole provider of goods and services	777,800	-
	<b>2,375,050</b>	<b>3,247,246</b>

### 59. Budget differences

#### Material differences between budget and actual amounts

# Govan Mbeki Municipality

Annual Financial Statements for the year ended June 30, 2017

## Notes to the Annual Financial Statements for the year ended 30 June 2017

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### 59. Budget differences (continued)

The changes in the original budget, final budget and actual figures are as a result of virements and transfers done to cater for year end accrual journals, impairment journals, land fill site finance cost and year end assets journals. All budget fluctuations above 10% in comparison to actual results for the year were considered material and are explained below

#### **Service charges**

Less income realised than anticipated, which is also associated with distribution losses realised on electricity and water.

#### **Rental of facilities & equipment**

Renewal of lease contracts by tenants and less bookings received for rental of halls and municipality facilities

#### **Interest earned on outstanding debtors**

Increase in interest is related to increase in the debtors.

#### **Income from agency services**

Less income realised than anticipated due to decrease vehicle registrations and closure of licensing office due to ENATIS system technical interruptions.

#### **Administration and management fees**

Administration fees mainly relates to cut-off and reconnection fees. Less income realised than anticipated due to lesser cut-offs.

#### **Fees earned**

less income realised than anticipated.

#### **Incidental income**

More income realised than anticipated. Monies recovered from the department of Safety and Liason which was not budgeted for.

#### **Other Income**

The actual income include surplus from Landfill site provision and retention write-off not budgeted for.

#### **Interest earned on external investments**

Lesser interest received due to lesser cash balances

#### **Dividends**

Less income realised than anticipated.

#### **Fines**

Less fines charged to transgressors

#### **Insurance claims received**

Less insurance incidents claims reported in the current year

#### **Property rates**

Less property rates income realised than anticipated.

#### **Bulk purchases**

Increase in demand, annual increase of the Eskom tariffs and the distribution losses.



## **Govan Mbeki Municipality**

Annual Financial Statements for the year ended June 30, 2017

### **Notes to the Annual Financial Statements for the year ended 30 June 2017**

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#### **59. Budget differences (continued)**

##### **Collection cost**

Less use of service providers for collection hence reduction in the cost compared to actual budget.

##### **Contracted services**

Increase in legal fees than anticipated as a result of increase in number of legal cases.

##### **Debt impairment**

More debtors were long outstanding and payment were not made which increased the impairment.

##### **Finance charges**

Finance charges incurred mainly as a result of the Eskom interest which was not budgeted for.

##### **Other expenditure**

Donation of R57,147,850 where the municipality was giving the land to schools.

##### **Repairs & Maintenance**

Cash flow constraints, resulting in low spending

##### **Transfers and grants**

Increase in indigent database compared to what was budgeted for.

##### **Loss on disposal of assets**

Losses realised on disposal of SUB-Economic assets not budgeted for.

##### **Actuarial losses**

Actuarial losses incurred as a result of provision on employee benefit and long service award liability.

##### **Fair value adjustments**

Fair value adjustment as a result of investment property values aligned to the valuation roll.

##### **Short term receivables**

Long term debtors moved from long term to consumer debtors

##### **Investment property**

Investment property decreased as a result of unbudgeted donations made during the year

##### **Long term receivables**

Long term debtor has been moved from long term to current debtor

##### **Other financial liabilities**

Loan redeemed in the current year

##### **Payables from exchange transactions**

Increase as a result of major increase in normal creditors which are not paid as result of cash-flow constraints.

##### **Payables from non-exchange transactions**

The balance mainly include unknown deposits, more receipts were allocated than anticipated

##### **Long service award liability**

Increase in provision of long service liability than anticipated